IPART Independent Pricing and Regulatory Tribunal | NSW

Review of prices for WaterNSW's services in Greater Sydney from 1 October 2025

Draft Report

July 2025

Water »

Acknowledgment of Country

IPART acknowledges the Traditional Owners of the lands where we live and work. Our office is located on Gadigal land and our work touches on Aboriginal lands and waterways across NSW.

We pay respect to their Elders both past and present, and recognise Aboriginal people's unique and continuing cultural connections, rights and relationships to land, water and Country.

Image taken on Worimi Country (Myall Lakes)

The Independent Pricing and Regulatory Tribunal

IPART's independence is underpinned by an Act of Parliament. Further information on IPART can be obtained from IPART's website.

Tribunal Members

The Tribunal members for this review are:

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

Enquiries regarding this document should be directed to:

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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 Monday, 25 August 2025

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 services in Greater Sydney from 1 October 2025
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop, Sydney NSW 1240

If you require assistance to make a submission (for example, if you would like to make a verbal submission) please contact one of the staff members listed above.

Late submissions may not be accepted at the discretion of the Tribunal. Our normal practice is to make submissions publicly available on our website as soon as possible after the closing date for submissions. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning one of the staff members listed above.

We may decide not to publish a submission, for example, if we consider it contains offensive or potentially defamatory information. We generally do not publish sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please let us know when you make the submission. However, it could be disclosed under the *Government Information (Public Access) Act 2009* (NSW) or the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW), or where otherwise required by law.

If you would like further information on making a submission, IPART's submission policy is available on our website.

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Report summary

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1.1 IPART is reviewing WaterNSW's prices in Greater Sydney

WaterNSW owns and operates dams across NSW, capturing, storing and supplying water for the environment, agriculture, industry and the community. In the Greater Sydney region. WaterNSW supplies bulk, raw and unfiltered water to Sydney Water Corporation, Wingecarribee Council, Shoalhaven City Council and Goulburn-Mulwaree Council and also provides raw and unfiltered bulk water to a number of other customers. Bulk water sales to Sydney Water make up around 99% of WaterNSW's total bulk water sales. The remaining 1% of bulk water sales are made to WaterNSW's 3 council customers and its 59 raw and unfiltered bulk water customers. We are currently reviewing the maximum prices WaterNSW can charge its customers for these services.

Safe, reliable and affordable water services are essential for both the people of NSW, and many businesses within NSW. WaterNSW (like many water businesses) is a monopoly provider, because in general customers have limited choice in who provides their water, and WaterNSW has limited competition to keep its prices low. For these reasons, IPART's role is to determine the maximum prices that WaterNSW can charge for its water services.

IPART seeks to set efficient prices which reflect the maximum that WaterNSW would need to charge to survive in a competitive environment. This means customers don't necessarily pay for what WaterNSW actually spends, but rather what an efficient business would need to provide the same WaterNSW services. It also means that WaterNSW generates the revenue it needs to plan, construct and maintain infrastructure as well as funding its day-to-day operations.

IPART regulates WaterNSW's maximum prices under 4 separate determinations:

- WaterNSW's Greater Sydney operations, which covers the supply of bulk water to Sydney Water and a small number of other customers in the Greater Sydney region and makes up roughly two-thirds of WaterNSW's revenue.
- WaterNSW's Rural Valleys operations, which supplies bulk water to customers in rural and regional NSW. This makes up just under 30% of WaterNSW's revenue.
- WaterNSW provides water management services on behalf of the Water Administerial Ministerial Corporation (WAMC). This portion makes up around 6% of WaterNSW's revenue.
- In addition to the above, WaterNSW also provides water transportation services provided by the Murray River to Broken Hill pipeline (the WaterNSW Pipeline). IPART sets the prices WaterNSW can charge customers who rely on the WaterNSW Pipeline for water supply.

This review focuses on the first and largest component of WaterNSW's operations: Greater Sydney.

1.2 Maximum prices would increase by 10.4% plus CPI per year under our draft decisions

On average, our draft prices for WaterNSW's Greater Sydney bulk water customers increase by around 10.4% per year before inflation. Prices for individual customers may vary from this based on the split between fixed service charges and variable usage charges in their bill, their water usage and the extent of drought in the next determination period. Prices under our draft decisions would also apply from 1 October 2025. Chapters 9 and 10 have more detail on exactly how each customer's bill would change under our draft prices.

Under our draft decisions in this review WaterNSW's charges to Sydney Water would represent approximately 7.7% of Sydney Water's notional revenue requirements, based on IPART's draft determination in our concurrent review of Sydney Water's maximum prices.

Our draft decisions would account for $103 of a typical residential customer's bill from Sydney Water in 2025-26 (including inflation). This is a small increase from 2024-25, when the prices Sydney Water paid to WaterNSW for bulk water accounted for $94 of a typical residential customer's bill from Sydney Water. By 2027-28, our draft decisions would account for $128 of a typical residential customer's bill from Sydney Water. This would be an increase of $34 from what the same customer would have paid in 2024-25, i.e., $94.

1.3 Our draft maximum prices reflect efficient costs

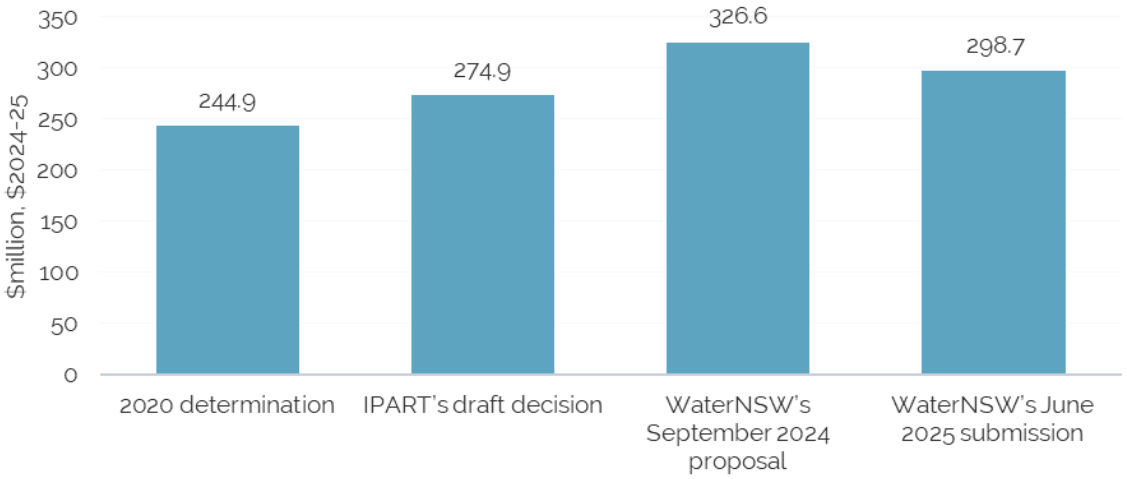
The proposed bill increases under our draft decisions are lower than the 14% real increase per year put forward by WaterNSW in its June 2025 submission to our Information Paper (its alternative revenue request). Our proposed prices are lower because our review of efficient expenditure has indicated that not all of the increases in expenditure that WaterNSW proposed are necessary or efficient for this next 3-year period.

We propose to set WaterNSW's notional revenue requirement (NRR) for Greater Sydney to $824.8 million for the 3-year determination period. This includes:

- Operating expenditure of $330.1 million. This equates to around an average of $110.0 million per year, which is around 2.5% higher per year than the allowance for the base year (2023-24) in the 2020 Determination. We consider the allowance for the base year is a better comparator than the average allowance over the 2020 Determination for operating expenditure, as operating costs are typically recurring costs. The allowance for 2023-24 represents our assessment of the efficient recurring costs for the most recent year (with a full 12 months of data available).
- Capital expenditure of $370.5 million. This equates to around an average of $123.5 million per year, which is around 7.2% higher than the average annual allowance over the 2020 determination period. We consider that the average allowance over the 2020 Determination is an appropriate comparator for capital expenditure as capital expenditure tends to be more lumpy or intermittent than recurrent.

The proposed annual average revenue requirement of $274.9 million is 12.3% higher than the annual average revenue requirement over the 2020 determination period, 15.8% lower than WaterNSW's September 2024 proposal and 8% lower than the alternative revenue request put forward in WaterNSW's June 2025 submission.

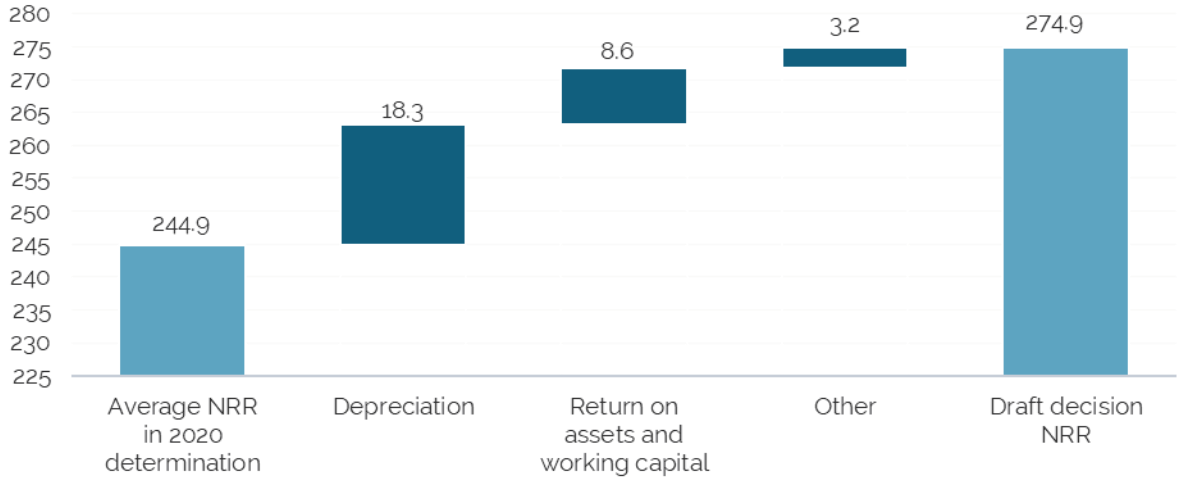
Figure 1.1 Average annual NRR under the 2020 determination, IPART's draft decision and WaterNSW's September 2024 proposal and June 2025 submission



Note: Figures may not sum due to rounding.
Source: WaterNSW, 2024 Pricing Proposal, September 2024, WaterNSW, submission to IPART Information Paper, June 2025 and IPART analysis.

Figure 1.2 shows the key drivers of the increase in the NRR under our draft decisions.

Figure 1.2 Average annual NRR under the 2020 Determination compared to IPART's draft decision ($millions, $2024-25)



Source: IPART, Review of prices for WaterNSW Greater Sydney from 1 July 2020 – Final Report, June 2020 and IPART analysis.

The average annual NRR under our draft decision is 12.3% higher compared to the 2020 determination period. This is mainly driven by higher depreciation and a higher return on assets.

In our 2020 review we decided to calculate depreciation for new assets on a disaggregated basis, as this would better match the actual profile of asset consumption through time. This change supports intergenerational equity and means that customers pay for their fair share of short- and long-lived assets, at any point in time. The outcome of this is depreciation for shorter-lived assets categories under our draft decision has increased relative to 2023-24. This is discussed in more detail in section 6.1.

The increase in the return on assets component is due to a higher regulatory asset base (RAB) as well as a higher real post tax weighted average cost of capital (WACC) (from 3.4% under the 2020 Determination, to 3.6% under our draft decision).

Under our draft decisions prices for WaterNSW's Greater Sydney bulk water customers would increase by around 10.4% per year before inflation.

Seek Comment

1. What are your views on our draft decisions for WaterNSW's Greater Sydney operations, as shown in section 1.7?

1.4 Our draft prices provide WaterNSW a revenue envelope to manage their business

IPART engaged independent experts, Aither and AtkinsRéalis (Atkins), to review the efficiency of proposed operating and capital costs to enable WaterNSW to meet its licensing obligations and deliver safe and reliable water services over the next 5 years. In providing their advice to IPART, the independent experts reviewed a sample of projects and forecast expenditures. This review assessed WaterNSW's approach to long term planning, optioneering and adaptive planning, asset management practices and processes, risk management, procurement and deliverability. The review also considered WaterNSW's approach to forecasting costs and contingencies, and scope for productivity improvements.

In making this draft determination IPART considered all submissions and stakeholders comments, the independent expert's report, as well as its own analysis of proposed costs. We received feedback on these initial decisions from WaterNSW, the NSW Government and numerous stakeholders and have conducted further analysis since May and are now in a position to release a Draft Report. Our draft decision to set a shorter determination period (3 years rather than 5) reflects our assessment that level of uncertainty over WaterNSW costs in the medium term while balancing the need to minimise regulatory burden. A draft 3-year determination is consistent with the time period we suggested in our May 2025 Information Paper.

IPART does not approve individual projects or expenditures. IPART's draft decisions provide WaterNSW an overall efficient envelope of revenue to operate its business over the next 3 years. Our draft decision reflects our estimate of the efficient level of operating and capital costs WaterNSW should incur in providing its services over the regulatory period. However, it is not a budget or an amount that WaterNSW is required to spend over the period. Forecasts, costs and unexpected events can change how much WaterNSW needs to spend, and what the priorities of the business are. WaterNSW should focus on continuing to provide value to customers, regardless of the estimated efficient costs we use to set maximum prices. It will be open to the Tribunal to consider and potentially adjust for any additional efficient expenditure in the next review of WaterNSW's Greater Sydney operations.

We expect WaterNSW to manage its business to deliver on its customer services and outcomes at the lowest sustainable cost, in a manner that promotes long-term customer value. This includes continuously reviewing its forecasts costs and reprioritising to drive efficiencies, innovations, and delivery of its water services over the next 3 years

We note that with a 3-year pricing determination the next WaterNSW operating licence review and pricing review would be scheduled to be conducted concurrently in 2027-28. We will engage with the Minister for Water, WaterNSW and other stakeholders to identify the best approach for coordinating a pricing and licensing review. Any changes to the timeframe for an operating licence review would require amendment to the current operating licence by the Governor on the recommendation of the Minister.

1.5 We considered all feedback from stakeholders

We began the review in September 2024 when WaterNSW submitted a proposal to IPART detailing its planned expenditure for the next 5 years. We released an Issues Paper in November 2024, and an Information Paper in May 2025 laying out earlier draft decisions on WaterNSW's Greater Sydney expenditure and prices.

We heard from a range of stakeholders over our consultation period including individuals, industry organisations, businesses and government bodies. We received 477 submissions to our Issues Paper and 12 to our Information Paper, and held a Public Hearing attended by 108 stakeholders who provided feedback on various aspects of WaterNSW's pricing proposal.

Many stakeholders raised issues relating to:

- Affordability – stakeholders expressed concerns regarding price increases, especially in the context of a cost-of-living crisis.
- Concerns regarding short- and long-term costs – stakeholders raised concerns regarding short- and long-term investment, financial planning, impacts on customers and what is in the long-term interests of customers.
- Length of the determination – we received some submissions commenting on the length of determination, which were generally supportive of a 3-year determination.
- WaterNSW's financeability – some stakeholders were concerned that the draft prices and reduced revenues in our Information Paper would impact WaterNSW's ability to sustainably provide services.

We value the feedback that stakeholders have given us to date, and we have taken into account all views in reaching the draft decisions set out in this report. Chapter 3 of this report summarises what we heard from stakeholders so far in our review.

1.6 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 to this Draft Report by 25 August 2025.

Have your say

Your input is critical to our review process.

You can get involved by making a submission. We are seeking feedback by **25 August 2025** on our draft decisions.

Submit feedback »

Figure 1.3 shows our review timeline.

We will consider all stakeholder feedback and our own analysis, before publishing our Final Report with our final decisions in September 2025.

Figure 1.3 Timeline for our review

1.7 List of draft decisions

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Chapter 2

Assessment of WaterNSW's proposal for Greater Sydney

02

Summary of draft decisions resulting from WaterNSW's pricing proposal

Our decision is to set prices for a 3-year determination

Our draft decision is to set prices for 3 years.

A 3-year determination recognises our uncertainty about WaterNSW's proposed costs, particularly for years 4 and 5 while balancing the need to minimise regulatory burden.

A 3-year determination period will provide funding certainty to WaterNSW, while providing more time for it to develop more robust proposed expenditure past the 3-year horizon. This means that customers will not pay more than the efficient costs having regard to a range of statutory factors that include social impacts and ecologically sustainable development.

We note that with a 3-year pricing determination, the next WaterNSW operating licence review and pricing review would be scheduled to be conducted concurrently in 2027-28. We will engage with the Minister for Water, WaterNSW and other stakeholders to identify the best approach for coordinating a pricing and a licensing review.

IPART sets maximum prices that WaterNSW can charge its customers for bulk water services in the Greater Sydney area, 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.

The considerations under sections 14A(2) and 15(1) of the IPART Act have been central to our approach in setting draft maximum prices

We applied the considerations in the IPART Act when setting WaterNSW's draft maximum prices. Those considerations include affordability; WaterNSW's cost of providing bulk water services; the need to protect WaterNSW's customers from abuses of monopoly power; the effect of our prices on general inflation over the medium term; the need for WaterNSW to be more efficient so as to reduce costs for the benefit of its customers and taxpayers; the social impacts of our prices; and standards, quality, reliability and safety. In each of the subsequent chapters of this report, as well as Appendix A we explain how we applied the considerations and the IPART Act in setting WaterNSW's draft maximum prices for Greater Sydney.

We used our Water Regulation Handbook when we assessed WaterNSW's proposal. Our Handbook includes a water regulation framework based on customers, costs and credibility and provides a useful system for analysing the considerations in the IPART Act we must or may take into account.

2.1 Our water pricing review process

Under the IPART Act, when setting water prices, we are required to consider a range of matters. We explain how we factor in these matters into our draft decisions in **Appendix A**.

Matters for IPART to consider when setting water prices

The water regulation framework in our Handbook was developed to assist us in considering these matters, focusing on customers, costs, and credibility. It is underpinned by 12 guiding principles which both IPART and water businesses use to develop and assess pricing proposals.

The water regulation framework and the 12 guiding principles

Source: IPART, Water Regulation Handbook, July 2023, p 2.

Our water regulation framework is centred around water businesses developing pricing proposals that promote customer value. It strongly encourages water businesses – including WaterNSW – to actively involve and engage with their customers, bringing customers into the decision-making process when they are setting outcomes. Involving customers to set outcomes that matter most to them, and align with their preferences, is essential if water businesses are to identify better ways of delivering their services.

We recognise this is the first time WaterNSW has submitted a pricing proposal under our water regulation framework. We will work together with all stakeholders to continue to improve the framework. This will help achieve our common goal of delivering customer value.

In addition to our legislative responsibilities and the Water Regulation Handbook, in August 2024 we received a letter from the NSW Government requiring us to consider the cost-of-living impacts of Sydney Water and Hunter Water's prices.[a] While the letter does not specifically address WaterNSW, the maximum bulk water prices we set in our determination for WaterNSW's Greater Sydney operations affect the prices residential and business customers pay for the water they buy from Sydney Water. We considered the impact of WaterNSW's prices on Sydney Water's customer bills in section 10.1 of this Draft Report. Our Sydney Water draft report includes more information on cost-of-living impacts and the effectiveness of existing rebates (see Chapter 10 of our Draft Report on prices for Sydney Water Corporation from 1 October 2025).

[a] We received matters to consider prescribed in a Letter from the NSW Premier to the Chair of IPART, 20 August 2024, under section 13(1)(c) of the IPART Act.

Chapters 4 to 11 of this Draft Report detail how we assessed each aspect of WaterNSW's pricing proposal. However, ultimately our assessment was underpinned by 3 key criteria.

01 **Customers get the services they need, and costs are efficient**

We review operating and capital costs, so customers only pay what is fair. We also identify any productivity improvements WaterNSW could make.

02 **Fair and equitable risk sharing**

We assess the social impact, affordability, and intergenerational equity of the pricing proposal.

03 **What customers must pay is reasonable**

We determine the maximum prices WaterNSW can charge its Greater Sydney bulk water customers, considering the reasons for the proposed increases.

2.2 Our review process to date

Our price review of WaterNSW's Greater Sydney operations began with the submission of its pricing proposal in September 2024. We published WaterNSW's 2024 pricing proposal and an Issues Paper on 1 November 2024. In our Issues Paper, we summarised key aspects of the proposal and invited stakeholders to make written submissions over 5 and a half weeks.

We then held an online Public Hearing on 21 November 2024. This allowed the community to let us know what they thought about the pricing proposal and ask questions directly to WaterNSW and to IPART.

As part of this review we engaged independent experts Aither and Atkins to review the efficiency of proposed operating and capital costs for WaterNSW over the next 5 years. The independent experts provided their draft expenditure reports to WaterNSW for comment in March 2025.

On 14 May 2025, we published our Information Paper and May Draft Determination outlining our earlier draft decisions on the maximum prices WaterNSW can charge for its bulk water, raw and unfiltered water services in the Greater Sydney area. In coming to our earlier draft decisions, we considered all stakeholder feedback to the Issues Paper, including WaterNSW's suggestions of delaying the review or having a shorter determination period. We invited stakeholders to make written submissions to the Information Paper over a 3-week consultation period. During this consultation period, WaterNSW put forward an alternative revenue request in its June 2025 submission, in response to our May Information Paper.

Aither and Atkins have now considered WaterNSW's feedback to their draft expenditure reports and issued their final expenditure reports. Aither's report on its assessment of WaterNSW's expenditure proposal for its Greater Sydney business is available on our website here. Atkins' report on its assessment of WaterNSW's proposed expenditure for its Rural Valleys business, which includes its assessment of WaterNSW's proposed digital expenditure across the Greater Sydney, Rural Valleys and WAMC pricing reviews, is available on our website here.

In coming to our draft decisions, we have considered all feedback received in response to the Issues Paper and Information Paper and at the online Public Hearing. We have also considered WaterNSW's initial pricing proposal in September 2024 and its alternative submission which it submitted in June 2025, as well as the independent expert advice provided by Aither and Atkins. We now invite all stakeholders to provide feedback on the draft decisions outlined in this Draft Report and accompanying Draft Determination over a 3-week period.

2.3 Our draft decision is to set a determination length of 3 years

Our draft decision is:

1. To set prices for a 3-year determination period commencing 1 October 2025 and ending 30 June 2028, or when replaced.

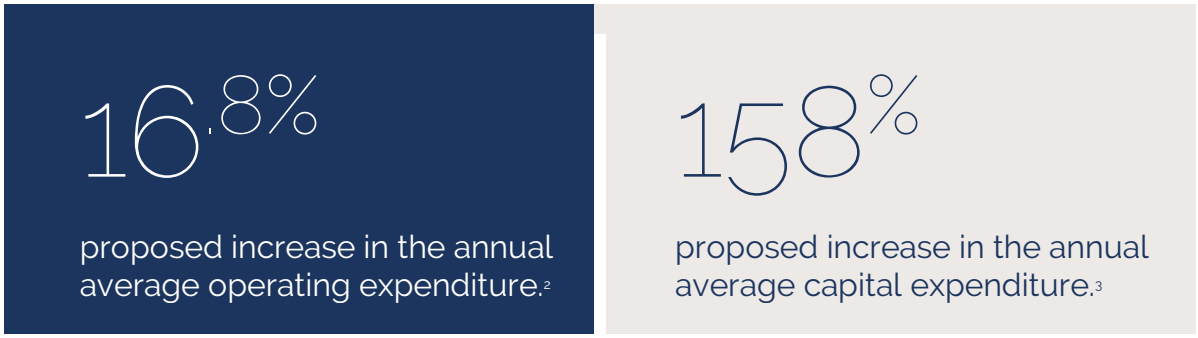
Under the water regulation framework, the default length of a determination period is 5 years, however IPART can set a determination period of a shorter length and has made a draft decision to set a short-term determination for 3 years.

The draft decision recognises our uncertainty about WaterNSW's proposed costs, particularly for years 4 and 5 while balancing the need to minimise regulatory burden.

Our view is that a 3-year determination period adequately balances the benefits of reduced uncertainty about forecasts against the costs of more frequently reviewing prices. Whilst a 1- or 2-year determination would further reduce the uncertainty around forecasts, it would also add regulatory costs for both WaterNSW, other stakeholders and IPART as we would need to undertake a subsequent review sooner. In addition, a 3-year determination period will provide WaterNSW with time to improve its future operating and capital expenditure forecasts, and potentially for any changes from a broader review of WaterNSW's operating environment to take effect before we begin our next price review.

2.4 Summary of WaterNSW's proposal for Greater Sydney

In order to meet its regulatory and legislative obligations, WaterNSW included a cost reflective base case in its September 2024 proposal. The base case included a proposed revenue requirement of $1.7 billion over a 5-year determination period. This represented an annual average revenue requirement of $340.2 million, which is 38.9% higher than the annual average revenue requirement in the current determination period.[1] The proposed increase is driven by:



Note: These are slightly higher than presented in our May Information Paper and WaterNSW's September 2024 proposal because we have updated the inflation from the forecast inflation of 3% for 2024-25 to the actual inflation of 2%.

WaterNSW proposed to change the form of price control from its current price cap to a revenue cap, to better manage the impact of water sales or revenue volatility on customer prices and its ability to recover efficient costs.[4]

WaterNSW's proposal, and IPART's review, have raised broader challenges that WaterNSW is facing. As a result, we have decided not to grade the proposal. These challenges will take time to work through.

2.5 WaterNSW's June 2025 submission to our Information Paper

WaterNSW responded to our Information Paper with a range of concerns about our May 2025 draft decisions. It stated that the prices in our Information Paper "do not provide sufficient funding to keep WaterNSW solvent and to allow it to meet statutory and legal obligations."[5] It considered that IPART must complete its expenditure review and make a final determination within one year that ensures its ongoing financial viability, "otherwise WaterNSW will be insolvent in the second year."[6]

WaterNSW argued that the proposed price paths were out of step with regulatory determinations in other jurisdictions. On this point, WaterNSW indicated that it did not believe IPART's assessment of its costs, including the impact of current market conditions, interest rates and the regulatory obligations and service levels of the business was correct, and that it was out of line with IPART's own guidelines and regulatory obligations.[7]

WaterNSW also submitted that IPART had not had regard to the relevant matters in the IPART Act, including the impact on public sector assets and the impact on debt and equity holders. It claimed "WaterNSW considers that IPART has not deliberated, as required, on the relevant matters in Section 15 of the IPART Act… in considering the proposed allowed revenues and WaterNSW's ability to operate as a going concern financially."[8]

WaterNSW believed there was no guidance from IPART on how WaterNSW would recover unfunded revenues when final determinations are made. It also submitted that there was no guidance as to how WaterNSW should finance new and existing debt, believing that IPART had not followed its own guidelines in determining the WACC allowance.[9]

We have considered WaterNSW's views on its solvency and financial viability in response to our Information Paper (see section 2.5.3 and Appendix B for further information). We have also considered WaterNSW's alternative revenue request as outlined in its June 2025 submission to the Information Paper in reaching our draft decisions, including prices under the building block approach (e.g. see Section 10.2).

2.5.1 WaterNSW put forward price increases of 14% per year for 3 years

In its submission to IPART's Information Paper,[10] WaterNSW put forward an alternative revenue request, which it states would be necessary to remain solvent and meet basic statutory and regulatory obligations. WaterNSW submitted that under its alternative revenue request, customer service levels would fall and WaterNSW's operational risks would increase. Under this alternative revenue request, prices would need to increase by 14% (excluding inflation) each year for three years starting in 2025-26, or by a one-off increase of 30% (excluding inflation) in 2025-26 followed by no real increases in 2026-27 and 2027-28.

Operating expenditure

Under its alternative revenue request, WaterNSW put forward $396.9 million ($2024-25) of operating expenditure over a 3-year period for Greater Sydney. This is:

- $19.1 million ($2024-25) or 16.9% higher than the average annual allowance over the 2020 determination period
- $5.5 million or 1.4% higher than its original (September 2024) proposal.[b]

WaterNSW noted that while it has reduced the level of operating expenditure in its June 2025 alternative revenue request compared to its September 2024 proposal, the reduction is masked by a large level of capitalised overheads ($8 million per year) that it submitted have necessarily been reallocated to operating expenditure due to the approximately 70% lower implied capital program in the Information Paper.[11] The net impact of this is a $5.5 million increase in operating expenditure compared to its September 2024 proposal.

[b] Figures are based on annual averages.

Capital expenditure

Under its alternative revenue request, WaterNSW put forward $330.6 million ($2024-25) of capital expenditure over a 3-year period for Greater Sydney. This is:

- $5 million ($2024-25) or 4.4% lower than the average annual allowance allowed for the 2020 determination period[c]
- $168.4 million or 60.4% lower than its original (September 2024) proposal.[d]

We also note that since 2019-20, WaterNSW's actual capital expenditure was $138.8 million (or 23%) lower than the efficient funding envelope set in the 2020 Determination.

2.5.2 WaterNSW's views on IPART's financeability tests

WaterNSW submitted that under IPART's approach as outlined in our May Information Paper, the return to equity investors would be materially lower than the cost of equity capital that would be obtained under IPART's 2018 WACC method.[12] WaterNSW's response included a report from Frontier Economics which showed that under IPART's approach outlined in the Information Paper, the return on equity for Greater Sydney would be 3.1%, in contrast to it being 4.8% if we used our standard approach.[13] Additionally, it submitted that the method to calculate the WACC should be corrected, and further stated that WaterNSW's proposed opex and capex should be considered when calculating the ratios.[14]

WaterNSW then referred to Frontier Economics' calculations that indicated with WaterNSW's proposed opex and capex, the Greater Sydney business would not be financeable for the next 3 years.[15] WaterNSW also pointed to the benchmark results of the Greater Sydney business's real funds from operations over net debt in IPART's Information Paper which showed that the Greater Sydney business was below target for all 3 years.[16] WaterNSW argued that this demonstrates a financeability concern.

Our benchmark and actual financeability tests for the Greater Sydney business showed that while the funds from operations (FFO) over debt ratio would be below target in the first year, this ratio would exceed the target in the second and third years of the determination. When combined with the Rural Valleys business, this ratio would be below target in the first year, at the lower bound in the second year then exceed the target in the third year of the determination. We have updated the financeability analysis based on draft decisions in this Draft Report.

Our detailed financeability analysis is available in Appendix B, which provides our analysis that WaterNSW's Greater Sydney business would likely be financeable over the next 3 years. Appendix B also provides our analysis that the FFO over debt results should be contextualised with WaterNSW's relatively long-lived assets.

c The 2021 allowance excludes drought-related expenditure on dams because the three large dam infrastructure projects for drought have been transferred over to the NSW Department of Climate Change, Energy, the Environment and Water (DCCEEW).
2024-25 figures are forecasts. Totals may not add due to rounding.

d Figures are based on annual averages.

2.5.3 IPART's response to WaterNSW's submission to our May Information Paper

We considered the matters raised by WaterNSW, Frontier Economics, NSW Government and stakeholders over the course of our review.

WaterNSW's financial sustainability

Our analysis indicates that WaterNSW would likely be financeable for the next 3 years with our draft maximum prices. We estimate that our draft maximum prices would result in an increase in WaterNSW's revenues compared to the current determination period. We consider that the revenue WaterNSW would derive from our draft maximum prices over the next 3 years should be sufficient to allow WaterNSW to meet its obligations, including its liabilities, provided WaterNSW works within the envelope of revenue we have allowed. We provide information in the following chapters which supports our analysis and estimates.

IPART's legislative framework

We have carefully weighed the matters we are required to consider when setting the draft maximum prices for WaterNSW's Greater Sydney operations for a 3-year period. In doing so, we also thoroughly weighed WaterNSW's pricing proposal against all comments we received in written submissions and our independent expert expenditure consultants' report.

In particular, we gave thorough consideration to:

- whether WaterNSW's pricing proposal provided to IPART in September 2024 and its alternative revenue request in June 2025 reflected the efficient costs of providing the services
- whether customers are protected from abuses of monopoly power in terms of prices and standards of service
- the effect of WaterNSW's prices on general inflation
- the need for greater efficiency in the services supplied by WaterNSW so as to reduce costs for the benefit of consumers and taxpayers
- the need for WaterNSW to maintain ecologically sustainable development with appropriate pricing policies that take into account all feasible options to protect the environment
- the impact of WaterNSW's proposed prices on borrowing, capital and dividend requirements of the NSW Government, including the impact on WaterNSW's ability to renew of increase its assets
- the impact of WaterNSW's pricing policies on its arrangements with the NSW Government and others
- the need to promote competition for the supply of bulk water services in the Greater Sydney area
- demand management and least cost planning

- the social impacts of our determination, especially in the Greater Sydney area, and the standards of quality, reliability and safety of WaterNSW's bulk water services in the Greater Sydney area.

We have taken these matters into consideration which are discussed in subsequent chapters of this Draft Report, and are also summarised in Appendix A.

Guidance on how WaterNSW would recover unfunded revenues

We have set draft prices based on our best estimates of the efficient level of costs WaterNSW would incur in providing bulk water, raw water and unfiltered water services in the Greater Sydney area over the next 3 years. However, the operating and capital expenditure allowance is not a budget or an amount that WaterNSW is required to spend over the period. WaterNSW should spend the amount it deems necessary, based on the priorities of the business and customers, and accounting for any changes in circumstances.

It will be open to the Tribunal in the next review to consider if, and how, they review WaterNSW's expenditure for the 2025 determination period and any potential adjustments they might make.

IPART financeability test

Our benchmark financeability test is based on a post-tax real WACC of 3.6% (thus a real cost of debt of 2.8%), which was set using our standard methodology (see Appendix C). We have also completed an actual financeability assessment based on a nominal cost of debt of 5.5%, which WaterNSW described in its submission as the current interest rate.[17] The revenue for the financeability tests is based on our draft decision on volumes and our proposed prices which were set using the building blocks model.

We also considered the financeability of WaterNSW's Greater Sydney and Rural Valleys businesses together under the actual test, taking into account our final decisions for the Rural Valleys business and the draft decisions outlined in this report for the Greater Sydney business.

In summary, we found that WaterNSW's Greater Sydney business would likely be financeable over the 3-year determination. Under the actual test, the Greater Sydney business would likely have sufficient headroom to meet its interest obligations at least twice over. This is also the case when the Greater Sydney business is considered together with the Rural Valleys business.

Under the benchmark financeability test, we found that the Greater Sydney business could meet its interest obligations more than 3 times over under our draft decisions.

Our detailed financeability assessment is available in Appendix B.

Chapter 3

What we heard from stakeholders

03

Summary of what we heard from stakeholders

Submissions raised concerns regarding affordability

Stakeholders expressed concerns regarding price increases, especially in the context of cost-of-living pressures currently being faced by consumers.

Stakeholders expressed concerns regarding short- and long-term costs

Stakeholders expressed concerns regarding short- and long-term investment, financial planning, impacts on customers and what is in the long-term interests of customers.

Some stakeholders commented on the length of the determination

Those stakeholders who commented on the length of the determination were generally supportive of a 3-year determination.

Some stakeholders were concerned about WaterNSW's financeability

Stakeholders were concerned that the draft prices and reduced revenues in our Information Paper would impact WaterNSW's ability to sustainably provide services.

Wingecarribee Shire Council disputed the forecast water sales volumes

The council rejected the proposed forecast volumes presented in our Information Paper as drought and non-drought figures were lower than what it has experienced.

Stakeholders raised a range of other concerns

Stakeholders raised a range of other issues including the need for collaboration and holistic reform and concerns regarding IPART's review process.

We have sought feedback from stakeholders throughout this review, including:

- On 1 November 2024, we published WaterNSW's pricing proposal and an Issues Paper summarising the key aspects of the proposal. We invited stakeholders to make written submissions over 5 and a half weeks.
- On 21 November 2024, we held an online Public Hearing which allowed the community to let us know what they thought about the pricing proposal and ask questions directly to WaterNSW and to IPART.
- On 14 May 2025, we published an Information Paper outlining our draft decisions on the maximum prices WaterNSW can charge for its bulk water, raw and unfiltered water services in the Greater Sydney area, and its rural bulk water services. We invited stakeholders to make written submissions over a 3-week period.

We heard from a range of stakeholders over the course of this review including individuals, businesses, and industry organisations and associations. We also received submissions from the NSW Government, and Wingecarribee Shire Council. WaterNSW also made submissions to our Issues Paper and Information Paper.

We thank all stakeholders for their time and effort spent to provide us with feedback through these avenues. We have considered all feedback received to date in making our draft decisions on WaterNSW's prices. Our consultation with stakeholders has helped us to form our draft decisions, particularly relating to the social impacts of our determination under section 15(1) of the IPART Act including section 15(1)(k).

The following sections of this chapter discuss the main concerns we have heard from stakeholders over the course of this review, and stakeholders' views on the draft decisions presented in our Information Paper.

3.1 Submissions raised concerns regarding affordability

Stakeholders expressed concerns regarding price increases, especially as costs of other utilities are simultaneously increasing and given the context of cost-of-living pressures.

Stakeholders also highlighted that pensions do not increase by price rises for essential services and questioned whether there will be discounts to compensate.

One stakeholder submitted that costs "should only increase with cost of maintenance."[18] Another stakeholder submitted that utilities' revenues increase yearly, in addition to the increases in the cost of living, whilst their pension does not increase with these rising costs and by the cost of living each year.[19] Similarly, another stakeholder submitted that:

"No increase for any community essential service should be higher than what the minimum wage rises are… water is essential for the community and not to be used as the means to generate wealth."[20]

[a] We received 64 submissions to our May Information Paper, 12 of which related to Greater Sydney.

Wingecarribee Shire Council (WSC) emphasised that the "current economic environment of cost-of-living crisis and the community's ability to pay should be at the forefront of decision making".[21] WSC noted the proposed first-year increase in prices are substantial which will impact the community and was supportive of price increases in years 2 and 3 being limited to inflation. WSC stated that:

"Councils experience is evolving from one of Water NSW providing a security net scenario, to one of a monopoly holding the community to ransom in a financial climate where residents are already experiencing a cost of living crisis… rising costs need to be limited to justified essentials, not an opportunity to claw back for non-commercial essentials or a legacy maintenance gap."[22]

Our analysis of the potential impact of our draft prices on customers is set out in Chapter 10.

3.2 Stakeholders expressed concerns regarding short- and long-term costs

The Water Services Association of Australia (WSAA) expressed concerns around the amount of capital expenditure included in the Information Paper and considered that IPART's draft decision 'kicks the tin down the road' on investment, which WSAA considers is not in the long-term interests of customers:

"It appears IPART has reduced WaterNSW capital expenditure compared to the last determination period by 30 per cent in Greater Sydney… WSAA is unaware of any Australian water utility that can reduce its capital expenditure in coming years."[23]

WSAA also noted that it is well known that operating costs are increasing in real terms. Energy, materials, labour and contract costs are all increasing above inflation. Supply chain pressures and cybersecurity cost increases are well documented. As a result, it questions IPART's draft decision to freeze WaterNSW's operating costs while approving real operating increases for Sydney Water and Hunter Water.[24]

In response to our Information Paper, the WSSA's submission put forward its interpretation that IPART has set capital expenditure equal to regulatory depreciation, which is concerning because:

"Regulatory Asset Bases in the water industry are generally set well below the replacement cost of the assets, and hence regulatory depreciation tends to be significantly less than the ongoing renewal and maintenance needs of the infrastructure."[25]

In our May 2025 Information Paper we made an earlier draft decision to set prices based on current prices, with increases for inflation and specific safety-related priorities. We have conducted further analysis since May and have made new draft decisions, which supersede the earlier ones in our Information Paper. Chapter 5 of this Draft Report presents our draft decision on efficient capital expenditure over the 2025 determination period, which we have set at 7.2% higher per year than the average annual allowance for the 2020 determination period. We also note that since 2019-20, WaterNSW's actual capital expenditure was $138.8 million (or 23%) lower than the efficient funding envelope set in the 2020 Determination.

We consider the draft capital expenditure allowance we have set will enable WaterNSW to maintain or improve its assets and services over the upcoming determination period.

WSC raised concerns regarding short and long-term costs, submitting that:

"Significant capital upgrades should not be burdened as a short-term lump sum. Longer term financial planning should be used to smooth the curve of such requirements. The community should not be suddenly burdened with a legacy of underinvestment or maintenance delay to make up on poor financial planning."[26]

Similarly, Infrastructure Partnerships Australia submitted that:

"In the face of an ageing asset base, it is imperative that the regulatory process allows for a balance to be struck between a sustainable capital investment approach to ensure assets don't reach a point of failure and managing cost impacts to customers… the scale of the capital investment reduction over the three-year pricing period will create a backlog of projects that cannot be delayed indefinitely and will have to be paid for eventually at greater costs."[27]

Our draft decisions on operating and capital expenditure are discussed in Chapters 4 and 5.

3.3 Some stakeholders commented on the length of the determination

We received few submissions commenting on the length of the determination.

WSC submitted that it is supportive of the 3-year set period, pricing approach and delay in commencement.[28]

WaterNSW submitted that it is conditionally supportive of the 3-year determination period provided the revenue requirement is based on the full cost recovery of its alternative revenue request in its June 2025 submission.[29]

Our draft decision on the length of the determination is discussed in Chapter 2.

3.4 Stakeholders had differing views on financeability

Infrastructure Partnerships Australia, Water Services Association of Australia (WSAA) and WaterNSW expressed concerns that IPART's draft prices could impact WaterNSW's financial sustainability.

Infrastructure Partnerships Australia highlighted that WaterNSW projects to make a net loss in FY2024-25 and in the following financial year, and that the reduced revenue during the proposed 3-year determination period may further impact WaterNSW's financial sustainability.
It submitted that:

"The three-year pricing determination reflects a decision to over-prioritise short-term affordability at the expense of other elements of the tripartite tension between assets, returns and user bills, particularly the resilience of the asset base. This increases the risk that WaterNSW will be unable to deliver water services to legislated standards in a financially sustainable manner, now and in the future, harming the long-term interests of consumers."[30]

Similarly, the WSAA submitted that:

"IPART's decisions on operating costs and capital costs raise the risk that in an environment of rising costs, WaterNSW will face financeability issues."[31]

WaterNSW considered that the prices in the Information Paper:

"threaten WaterNSW's ability to remain solvent… the proposal outlined in the Information Paper places WaterNSW in a position where it will be unable to fulfil its obligations… WaterNSW will see a degradation of essential customer services in the delivery of bulk water, and will not be able to meet all of its new regulatory and statutory obligations, including under its new Operating Licence."[32]

On the other hand, WSC submitted that it:

"is supportive of the interim pricing decisions to facilitate Water NSW essential community service."[33]

Our draft findings on financeability are presented in Chapter 10 and Appendix B.

3.5 Wingecarribee Shire Council rejected forecast water sales volumes

WSC rejected the forecast volumes in the Information Paper as it is unrepresentative of community figures, being below the estimates provided by Council to WaterNSW in its Water Supply Agreement:

"The figures for drought are substantially below the realities Council experienced in the 2019/2020 drought by 22.5%. During drought, the 15% of residences in the Shire that are off grid are reliant on Councils water supply to survive as their storages run dry."[34]

WSC also submitted that in recent years, actual non-drought demand volumes are:

"5% higher than current WaterNSW forecasts and is compounded by no allowance for growth, despite consistent forecast growth for the region... Both of these climate scenarios in Table 6.1 with corrected demand forecasts will substantially alter the billing impact estimates in Table 6.2 [of the Information Paper]."[35]

Our draft decision on forecast water sales volumes is discussed in Chapter 8. We are seeking further information on WSC's water sales volumes through this Draft Report.

3.6 Other issues

Collaboration and holistic reform

Infrastructure Partnerships Australia acknowledges that the broader issues and structural challenges WaterNSW faces require careful consideration by the Government, IPART and WaterNSW, which "may require wider reform to enable WaterNSW's effective operation."[36]

WSC was supportive of a 3-year determination to enable:

"A review of the justification of expenditure and the current operating model, incorporating a wholistic ability to pay assessment noting that impacts will be directly passed to residents."[37]

WSC also submitted that there should be focus on strategic discussions with the NSW Government to review the WaterNSW operating model, particularly on:

"the separation of commercial and non-commercial aspects of operation, with the view to separating customer supply price elements from the essential community service obligations of water security, safety, environment and social outcomes, which may be better funded by government."[38]

Transparency

Infrastructure Partnerships Australia and the WSAA asked that IPART revert to its normal regulatory processes. Infrastructure Partnerships Australia expressed concern about the level of transparency provided in the process, noting the lack of explanatory evidence provided to corroborate the draft decision. It noted that while IPART's review has been informed by third party consultants, the consultant's report has not been published, and as a result, stakeholders do not have all the necessary information to make detailed submissions or engage in a meaningful way.[39]

WSAA similarly requested for the release of the consultant's report, WaterNSW's response and IPART's assessment so that they can be commented on by stakeholders, as well as detailed reasons for IPART's decisions and responses to stakeholder comments and feedback.[40]

This Draft Report sets out our reasons for our draft decisions and we have published our independent expert report on expenditure along with this Draft Report.

Chapter 4

Operating expenditure

04

Summary of our draft decisions on operating expenditure

We set the draft operating expenditure allowance at $330.1 million for 3 years

At an average of $110.0 million per year, this is:

- $2.7 million (or 2.5%) higher per year than the allowance we set for the base year (2023-24) in the 2020 Determination
- $20.4 million (or 15.7%) lower per year than WaterNSW's September 2024 proposal
- $22.3 million (or 16.8%) lower per year than WaterNSW's June 2025 submission.

We assessed controllable operating expenditure using the base-trend-step approach. The key differences between WaterNSW's proposal and our draft decisions are:

- Using 2023-24 as the base year for operating expenditure instead of 2022-23 and our draft decisions on adjustments to the base year. This resulted in a -16.6% change in the base costs, which is the largest component of the base-trend-step approach.
- We adopted a lower cost growth trend factor than proposed by WaterNSW.

The impacts of our draft decisions to set lower base operating expenditure and cost growth trend factor are partly offset by our draft decision to apply a total step change of -$0.1 million for the next 3 years, which is lower than the -$9.7 million proposed by WaterNSW.

This chapter sets out our assessment of the level of operating expenditure WaterNSW requires to operate its Greater Sydney business efficiently over the 2025 determination period. WaterNSW's operating costs are the day-to-day expenses involved in running its business and maintaining the infrastructure and equipment it uses to provide services. It includes costs such as staff wages, contractors, electricity, insurance and digital costs.

We have carefully reviewed WaterNSW's proposed operating costs for its Greater Sydney business using a base-trend-step approach, as outlined in our Water Regulation Handbook. In reaching our draft decisions, we considered independent expert advice from Aither and Atkins, and additional supporting documentation provided by WaterNSW. Aither's report on its assessment of WaterNSW's expenditure proposal is available on our website here. We also considered submissions and views expressed at our public hearing and any information provided by other regulators.

Our assessment of WaterNSW's operating expenditure for its Greater Sydney business balances the considerations set out in sections 14A(2) and 15(1) of the IPART Act.[a] This chapter examines the economic costs of WaterNSW's services in the Greater Sydney area and assesses the efficiency in its supply of its services.

[a] Specifically, we considered sections 14A(2)(a), 14A(2)(b), 15(1)(a) and 15(1)(h) in terms of economic costs and expenditures, and 15(1)l in terms of standards of quality, reliability and safety.

Our estimates also factor in compliance with environmental regulations pursuant to sections 14A(2)(g) and 15(1)(f) of the IPART Act and customer expectations on service standards. We have compared WaterNSW's proposed future costs to its current and past levels of expenditure to inform our estimates.

4.1 WaterNSW's operating expenditure was $7.1 million (1.6%) more than the allowance reflected in prices over the last determination period

In 2020 we set the operating expenditure for a 4-year period up to and including 2023–24. Due to an extension to the determination period, we did not set an allowance for 2024–25. In the 4 years of the last determination period, WaterNSW spent 1.6% more operating expenditure than the amount we used to set the prices (see Table 4.1 further below).

Table 4.1 WaterNSW's operating expenditure over the 2020 determination period ($millions, $2024-25)

	2020-21	2021-22	2022-23	2023-24	Total
2020 Allowance	116.8	114.5	114.2	107.4	452.8
WaterNSW's actual cost	117.5	112.4	123.4	106.6	459.9
Difference ($m)	0.7	-2.1	9.2	-0.8	7.1
Difference (%)	0.6%	-1.8%	8.1%	-0.7%	1.6%

Note: Totals may not sum due to rounding.

Source: IPART analysis.

4.2 WaterNSW proposed a 16.8% increase in operating expenditure

WaterNSW proposed $661.3 million in operating expenditure for a 5-year period. This equates to an annual average of $132.3 million, which is 16.8% higher than the annual average of $113.2 million in the 2020 determination period.

WaterNSW adopted IPART's base-trend-step approach to forecast its operating expenditure for the 2025 determination period. This included:

- Establishing a **base** operating expenditure for 2022-23. WaterNSW stated that this decision was made due to the 2023-24 operating expenditure being completed too late for inclusion in the pricing proposal.[41]
- Proposing a total **trend** component of $9.8 million over a 5-year period, including $15.3 million of efficiency savings.[42]
- Adjusting for any **step** changes. WaterNSW proposed a negative total step change of $13.6 million over a 5-year period. While there are some increases, the most significant change is a negative step change in the overhead allocation adjustment that is applied to Greater Sydney.[43]

WaterNSW put forward an alternative revenue request of $396.9 million for a 3-year period (average of $132.3 million per year) in its June 2025 submission to our Information Paper.[44]

4.3 Our draft decision is to set the operating expenditure at $330.1 million over 3 years

Our draft decision is:

2. To set the efficient level of operating expenditure for the 2025 determination period at $330.1 million as shown in Table 4.2.

Table 4.2 Draft decisions on WaterNSW's efficient operating expenditure for its Greater Sydney business ($millions, $2024-25)

	2025-26	2026-27	2027-28	Total
Controllable operating expenditure	106.0	102.3	102.7	311.0
Non-controllable operating expenditure	6.3	6.3	6.5	19.1
Total operating expenditure	**112.2**	**108.7**	**109.2**	**330.1**
WaterNSW's September 2024 proposal	133.4	128.1	129.9	391.4
Difference from proposal ($m)	*-21.2*	*-19.4*	*-20.7*	*-61.3*
Difference from proposal (%)	*-15.9%*	*-15.2%*	*-15.9%*	*-15.7%*

Note: Totals may not sum due to rounding.

Source: IPART analysis.

Our draft decision is to set WaterNSW's total operating expenditure at $330.1 million for 3 years, or an average of around $110.0 million per year. This is $2.7 million (or 2.5%) higher per year than the allowance we set for the base year (2023-24) in the 2020 Determination. We consider the allowance for the base year is a better comparator than the average allowance over the 2020 Determination for operating costs, as these are typically recurring costs. The allowance for 2023-24 represents our assessment of the efficient recurring costs for the most recent year (with a full 12 months of data available). We also note that the operating expenditure profile set by IPART in the 2020 Determination was decreasing year on year over the 4-year determination period (see Table 4.1).

Table 4.3 shows the average annual operating expenditure based on our 2020 Determination, the allowance and actuals for the base year (i.e. 2023-24), WaterNSW's September 2024 proposal and its June 2025 submission, and our draft decision.

Table 4.3 Average annual operating expenditure ($millions, $2024-25)

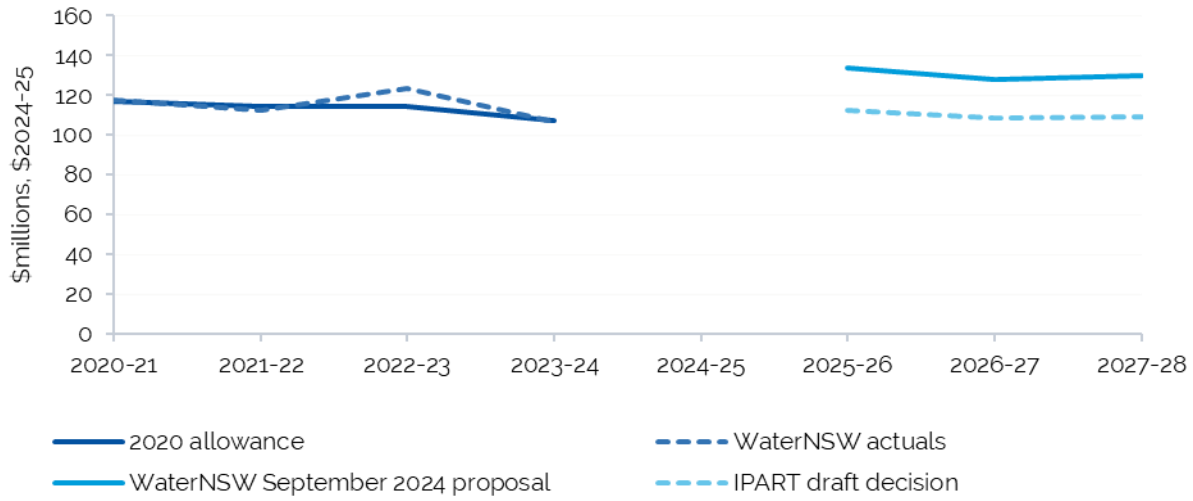
	2020 Determination average allowance	Base year (2023-24) allowance	Base year actuals	WaterNSW Sept 2024 proposal	WaterNSW June 2025 submission	Draft decision
Operating expenditure	113.2	107.4	106.6	132.3	132.3	110.0

Our draft decision reflects our estimate of the efficient level of operating costs WaterNSW should incur in providing its services over the regulatory period. However, it is not a budget or an amount that WaterNSW is required to spend over the period. Forecasts, costs and unexpected events can change how much WaterNSW needs to spend, and what the priorities of the business are. WaterNSW should focus on continuing to provide value to customers, regardless of the estimated efficient costs we use to set maximum prices.

The key change compared to WaterNSW's September 2024 proposal is that our draft decision on controllable operating expenditure is $56.5 million (or 15.4%) lower. We used the base-trend-step approach outlined in our Water Regulation Handbook to assess WaterNSW's efficient controllable operating expenditure. We also engaged independent experts – Aither and AtkinsRéalis (Atkins) – to inform our draft decisions regarding this.

Non-controllable operating expenditure is $4.8 million (or 20%) lower than WaterNSW's proposal as a result of incorporating more up-to-date decisions on WaterNSW's bulk water and water licence costs (based on IPART's WaterNSW Rural Valleys Determination for 2025-26 and IPART's WAMC Draft Determination for 2025-26 to 2027-28).

Figure 4.1 Comparison of our draft decision with historical operating expenditure and WaterNSW's proposal



Source: IPART calculations.

4.3.1 We adopted 2023-24 as the base year for operating expenditure

WaterNSW proposed an adjusted base cost of $128.6 million per annum, based on its 2022-23 expenditure with $12.1 million of adjustments to bring this to 2024-25 levels.[b 45]

Our draft decision is to set an adjusted base cost of $103.7 million per annum, based on its 2023-24 expenditure with $2.8 million of adjustments.

[b] This is for controllable costs only.

The main reason for the difference is that WaterNSW's actual expenditure in 2022-23 was significantly higher than its actual expenditure in 2023-24 (see Table 4.1). WaterNSW attributed the overspend to a significant flood event and related costs (such as overheads, contractors and salaries and wages) that disrupted operations and incurred additional costs (some of which were recovered through insurance).[46]

Aither considered that WaterNSW did not provide sufficient justification for the proposed use of 2022-23 operating expenditure as the base year, given the considerable increase in costs compared to the other years of the 2020 determination period, the higher level of expenditure compared to IPART's allowance, and additional information it received from WaterNSW on actual operating expenditure for 2024-25. Aither did not have confidence that 2022-23 reflects an appropriate base year and considered that 2023-24 is likely a better reflection of the base operating expenditure for the upcoming determination period.[47]

Table 4.1 shows that WaterNSW's actual operating expenditure over the 2020 determination period was similar to the allowances in most years, with the exception of 2022-23 when actual expenditure was considerably higher than the allowance. We agree with Aither's recommendation to adopt 2023-24 as the base year, to exclude the additional costs incurred because of an atypical flood event. Our draft decision to use 2023-24 as the base year is also consistent with the guidance in our Water Regulation Handbook that baseline operating expenditure reflects recurrent controllable operating expenditure in the second last year of the determination period i.e. the most recent year with a full 12 months of data available.[48] WaterNSW has not provided sufficient justification to depart from this approach. We are open to further clarification from WaterNSW on its proposed use of 2022-23 as the base year.

The use of a different base year means that Aither's recommendations and our draft decisions are not directly comparable to the initial adjustments put forward by WaterNSW. WaterNSW's proposed adjustment of $12.1 million is based on changes in costs incurred over a 2-year period (i.e. from 2022-23 to 2024-25) whereas our draft decision of $2.8 million is only based on changes from 2023-24 to 2024-25.

The key changes we have made to WaterNSW's proposed adjustments are:

- We adjusted WaterNSW's proposed adjustment of $12 million for operating model related cost changes (for a 2-year period) to a $3.7 million (for a one-year period) as we considered WaterNSW has not provided enough detail to justify this material increase. A key driver of the new operating model is the achievement of efficiencies across the business and our adjustment of $3.7 million is estimated based on the expected efficiency savings over the upcoming determination period.[49]
- We removed WaterNSW's proposed adjustment of $4.8 million for digital related costs and considered this as a step change, rather than maintaining WaterNSW's approach which involved an adjustment to the base and a trend factor.
- These decreases are partly offset by a lower negative adjustment ($2.1 million instead of the $6.8 million proposed by WaterNSW) for overhead allocations, to account for the change from using 2022-23 to 2023-24 for the base year.
- We also adopted Aither's recommendations on other costs such as employee costs, insurance premiums and land tax to account for the change from using 2022-23 to 2023-24 for the base year.

4.3.2 Our draft trend component is lower than WaterNSW's proposal

Aither found that WaterNSW incorporated trend related operating expenditure as explicit step change line items.[50] Aither has restructured WaterNSW's forecast expenditure into trend factors.

These restructured trend factors (based on WaterNSW's proposal) are presented in Table 4.4, along with IPART's draft decisions on the cost growth trend factor and the efficiency adjustment factor.

Table 4.4 Summary of proposed trend factors and our draft decisions

Trend	2025-26	2026-27	2027-28
WaterNSW proposal			
Combined cost growth factors[a]	1.68%	1.16%	1.28%
Cost efficiency improvement	0.88%	0.80%	0.87%
IPART draft decision			
Cost growth trend factor	0.9%	0.9%	0.9%
Efficiency adjustment factor	0.9%	0.9%	0.9%

a. Includes labour, insurance, land tax and digital costs.

Source: Aither, Expenditure Review of WaterNSW – Final Report, July 2025, pp 48 and IPART analysis.

We propose to apply a cost growth factor of 0.9% per year based on Aither's upper recommendation

Aither reviewed WaterNSW's proposed cost growth trend factor and found that:

- The proposed rate of change of 1% per annum above CPI for WaterNSW's labour costs is higher than the forecast in Deloitte's report on macroeconomic factors prepared for WaterNSW. Aither recommended a lower bound of no real increases, and an upper bound of 0.75% real increases per year based on the average recommended by Deloitte.[51]
- WaterNSW's proposed annual increases in insurance fluctuate significantly and equate to an average increase of 6.6% per annum. Aither recommended adopting an escalation factor of 5.34% per year, based on forecasts from icare, for both the lower bound and the upper bound.[52]
- WaterNSW proposed an escalation factor of 8.4% per year for land tax based on a JLL land tax report produced by WaterNSW. Aither agreed with the proposed approach but deflated this using an inflation estimate of 2.5% per year for a real escalation rate of 5.7% per year.[53]

We consider that tightness in the labour market means that it is likely that labour costs will increase at a rate above CPI over the next 3 years. For this reason, we have made a draft decision to adopt Aither's upper recommendation on the cost growth trend factor and set this at 0.9% per year.

Our draft decision is to apply an efficiency factor of 0.9% per year

WaterNSW proposed an efficiency factor of 1.0% per year in its September 2024 proposal.[54] We note that this is slightly higher than the efficiency factors proposed by Hunter Water and Sydney Water (0.9% per annum[c] and 0.7% per annum respectively),[55] however, we recognise that the level of efficiency improvements a business can achieve can vary between different businesses due to a multitude of factors.

We asked Aither to review WaterNSW's proposed efficiency factor. Aither considered that 1.0% per year is appropriate for the lower bound and recommended that the upper bound be based on the average of the standard rated business submissions from the recent PREMO review of 1.2% per year. Aither also considered that the decision on the efficiency factor could take into account other decisions on operating expenditure.[56]

We note that while WaterNSW proposed an efficiency factor of 1.0% per year in its September 2024 proposal, in reviewing the operating expenditure information submitted by WaterNSW, Aither found that the actual efficiency amount proposed is slightly less than 1.0% per year (see Table 4.4).

We have made a draft decision to set WaterNSW's efficiency factor at 0.9% per year. We consider that this is sufficient based on the other draft decisions we have made on operating expenditure, and this is also consistent with the restructured trend factor Aither calculated based on WaterNSW's proposal.

4.3.3 We propose to apply a lower negative total step change

In its September 2024 proposal, WaterNSW proposed -$9.7 million of step changes over the next 3 years. Our draft decision is to accept -$0.1 million of these step changes.

Table 4.5 summarises our draft decisions on WaterNSW's proposed step increases.

Table 4.5 Summary of proposed step changes and our draft decisions ($millions, $2024-25)

Step change	WaterNSW's September 2024 proposal	Draft decision	Summary
Compliance uplift with existing regulatory requirements	3.9	3.9	This step change includes expenditure on Crane Safety Improvement and WaterNSW's Electrical Safety Program. We accepted WaterNSW's proposal to recognise the need for expenditure on safety-related priorities.
New regulatory requirements	1.1	1.1	This step change to comply with a new requirement on yield modelling was found to be efficient.
Regulatory submission costs	-1.9	1.9	We accepted Aither's upper recommendation on regulatory submission costs. This becomes a positive step change under our draft decision because WaterNSW's proposal included regulatory submission costs as part of base operating expenditure, and Aither has recommended removing these from the base operating expenditure and adding them back in through a step change.

c Hunter Water proposed a cost efficiency target of 1.0% per year over the 6 years from 1 July 2025 to 30 June 2030. This equates to 0.9% per year over the 5 years from 1 July 2025 to 30 June 2030.

Step change	WaterNSW's September 2024 proposal	Draft decision	Summary
CSO/Grant Expiry	-3.3	-3.3	We accepted WaterNSW's proposal.
Overhead allocation adjustment	-10.1	-10.1	We accepted WaterNSW's proposal but note that this step change may need to be adjusted for our final report. This is discussed in more detail below.
Digital	-	6.4	We accepted Atkin's upper recommendation, which makes downward revisions to WaterNSW's proposed costs for software licensing and people.
Dam Safety Levy	-	0.8	This levy recovers the efficient costs of regulating the safety of declared dams in NSW from owners of declared dams. Our draft decision is based on updated information provided to IPART from WaterNSW.
Adjustment for Warragamba E-flows	-	-0.9	Aither found that there would be an associated decrease in recurrent operating costs in the 2025-30 period of $315,000 per annum under the deferral of the Warragamba E-flows project. Our draft decision on the Warragamba E-flows project is discussed in more detail in Chapter 5.
Total	**-9.7**	**-0.1**	

Source: WaterNSW, 2024 Pricing Proposal – Attachment 08 Base-Trend-Step operating expenditure, September 2024, p 31; WaterNSW annual information return and IPART analysis.

We are seeking further information on corporate overhead costs

Our draft decision includes a negative step change of $10.1 million over a 3-year period for an overhead allocation adjustment (as shown in Table 4.5). WaterNSW proposed this step change in its September 2024 proposal and stated that this is due to more costs being allocated to capital projects.[57]

In its June 2025 submission to our Information Paper, WaterNSW stated that a large level of capitalised overheads ($8 million per year) would need to be reallocated to operating expenditure, based on the approximately 70% lower implied capital program in IPART's Information Paper.[58] However, WaterNSW did not provide any additional information on how this amount was calculated.

We have not made any adjustments to WaterNSW's proposed negative step change for overhead allocations (based on its September 2024 proposal) at this stage, as IPART does not yet have access to the modelling behind this. We note that the level of corporate overhead costs may need to be adjusted in our Final Report.

In the early stages of this price review, we requested that WaterNSW provide its cost allocation model to inform our expenditure reviews. We note that while WaterNSW provided us with its Cost Allocation Manual as part of its September 2024 proposal,[59] we do not have all the information needed to ascertain how changes in WaterNSW's 4 different determinations, as well as changes in the levels of operating and capital expenditure, would affect the overall pool of overheads for WaterNSW and how these corporate overhead costs would be allocated.

WaterNSW has advised us that cost allocations involve a complex process that cannot be comprehensively replicated and shared with IPART. WaterNSW suggested that once IPART has developed expenditure scenarios for the draft determination, that IPART share these scenarios with WaterNSW so that WaterNSW can recalculate allocations of overheads across Rural Valleys, Greater Sydney, WAMC and the Broken Hill Pipeline and submit a revised corporate cost allocations for IPART to include in its draft determination.

We do not agree with WaterNSW's suggested approach as it is not transparent and does not allow us to understand, assess or revise the level of corporate costs or how corporate costs are allocated across WaterNSW's 4 determinations. Instead, we have requested that WaterNSW provide additional information on overhead allocations, supported by its workings and/or a model allowing IPART to fully understand and make adjustments to the allocations of overhead costs for consideration in our Final Report.

4.4 WaterNSW's expenditure for the deferral year

In November 2021, we approved the extension of WaterNSW's current pricing period by one year, to 2024-25. This meant that prices remained constant at 2023-24 levels, and no operating expenditure allowance was set for 2024-25. As part of this review, we have assessed WaterNSW's expenditure in 2024-25 to determine if it was efficient and in customers' best interests.

WaterNSW's forecast operating expenditure is $132.1 million for the 2024-25 deferral year.[60] This is around 16.7%% higher than its average annual allowance of $113.2 million under the 2020 Determination.

We asked Aither to review and make recommendations on WaterNSW's efficient operating expenditure for 2024-25. Aither considered that efficient operating expenditure for 2024-25 can be inferred based on the adjusted base cost amount.

We consider that Aither's recommendation to use the adjusted base cost is reasonable. We propose to set the efficient level of operating expenditure for 2024-25 at $109.4 million, based on the adjusted base cost and non-controllable operating costs for 2024-25, for the purpose of the deferral year adjustment (see Chapter 6 and Appendix D for more information).

Chapter 5

Capital expenditure

05

Summary of our draft decisions on capital expenditure

We propose to include most of WaterNSW's capital costs since 2019-20 in its regulatory asset base

We reviewed WaterNSW's historical capital expenditure for its Greater Sydney business to determine the efficient level of expenditure to include in the RAB roll-forward.

Since 2019-20, WaterNSW's actual capital expenditure was $138.8 million (or 23%) lower than the efficient funding envelope set in the 2020 Determination.

Our view is that WaterNSW's actual capital expenditure over the 2020 determination period was mostly efficient.

We propose to make one downward adjustment of $4.0 million related to digital expenditure based on independent expert advice from Atkins.

We set the draft capital expenditure allowance at $370.5 million for 3 years

We have made a draft decision to include $370.5 million of forecast capital expenditure into WaterNSW's RAB.

At an average of $123.5 million per year, this is:

- $8.2 million per year (or 7.2%) higher than the average annual allowance we set for the 2020 determination period
- $155.1 million per year (or 55.7 %) lower than WaterNSW's September 2024 proposal
- $13.3 million per year (or 12.1%) higher than WaterNSW's June 2025 submission.

This chapter sets out our assessment of the capital expenditure WaterNSW requires to deliver good quality services and customer outcomes for its Greater Sydney business. WaterNSW's capital costs are the investments it makes to buy, build and renew the infrastructure and equipment it uses to provide its services.

In reaching our draft decisions, we considered independent expert advice from Aither, additional supporting documentation provided by WaterNSW and comments from stakeholder consultation. Aither's report on its assessment of WaterNSW's expenditure is available on our website.

5.1 WaterNSW's spending for its Greater Sydney business over the last 6 years

Our draft decision is:

3. To set the efficient level of capital expenditure for 2019-20 to 2023-24 at $476.6 million, as shown in Table 5.1.

Our decisions on capital expenditure reflect our assessment of the prudent and efficient level of expenditure on capital works that should be included in a businesses' regulatory asset base and be recovered through prices. When we assess historical capital expenditure, we look at spend over the current determination period (2020-25), as well as spend over the final year of last determination period (i.e. 2019-20).[a]

Since 2019-20, WaterNSW's actual capital expenditure was $138.8 million (or 23%) lower than the efficient funding envelope set in the 2020 Determination. WaterNSW's proposal attributed the lower spend to:

- Strategic deferrals and cancellations, such as the cancelled Warragamba Dam Raising Project (which included the Warragamba E-flow project).
- Delays resulting from natural disasters (bushfires and flood), pandemic restrictions and the complexity of some strategic options assessment.
- Changes in scope reduced actual costs for some renewal and replacement activities.[61]

To help us determine the efficient level expenditure to include in the RAB roll-forward, we asked independent experts Aither and AtkinRéalis (Atkins) to assess and provide advice on WaterNSW's spending. Aither and Atkins found that this seemed mostly reasonable but recommended a downward adjustment of $4.0 million for digital expenditure over the period, due to a significant reduction in benefits being delivered by WaterNSW's Water Value Added Environment (WAVE) program.[62] Atkins' recommended downward adjustment is based on expected future efficiency savings from the program.[63]

Our draft decision is to include all historical capital expenditure, subject to the adjustment for digital expenditure, into the RAB. The efficient level of capital expenditure for the 2019-2024 period is presented in Table 5.1.

[a] We look at spend over the final year of the 2016 determination period (2019-20) because at the time of setting prices for the 2020 determination period we would not have had a complete year of actual expenditure data from 2019-20 to assess its efficiency.

Table 5.1 Efficient capital expenditure for 2019-25 period ($millions, $2024-25)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25[a]	Total (2019-24)[b]
2020 allowance	158.4	128.1	102.5	124.9	105.5	n/a	619.4
WaterNSW's actuals	144.1	100.8	50.7	71.3	113.7	137.1	480.6
Adjustment for digital expenditure	0.0	-0.2	-1.2	-1.1	-1.5	0.0	-4.0
Efficient base capital expenditure	**144.1**	**100.6**	**49.6**	**70.2**	**112.2**	**137.1**	**476.6**

a. 2024-25 is a forecast.
b. In this table, the total determination allowance considers only 5 years between 2019-20 to 2023-24. This is because no explicit allowance was set for 2024-25 when the price review as deferred.
Note: Totals may not sum due to rounding.
Source: IPART analysis.

5.2 WaterNSW proposed a 158% increase in capital expenditure

WaterNSW proposed a capital expenditure program of $1.5 billion over a 5-year period in its September 2024 proposal. This represents an annual average of $297.2 million, which is 158% above the annual average of $115.3 million over the 2020 determination period.

The 2 major projects in WaterNSW's capital program (based on its September 2024 proposal) are:

- Warragamba Dam Resilience, to meet dam safety standards (initially $609 million over 5 years, later revised to $406 million over 5 years based on WaterNSW's revised forecast expenditure where a delay in project delivery shifts some expenditure beyond the next 5 years). WaterNSW submits that a detailed risk assessment justifies strengthening aspects of the dam to ensure compliance with regulation and the ongoing ability to handle extreme rainfall events.[64]
- Warragamba E-flows, to modify Warragamba Dam to enable the release of variable environmental flows ($302 million over 5 years). WaterNSW states that this will improve health and recreational opportunities in the Hawkesbury-Nepean River.[65]

Before the inclusion of these 2 projects, WaterNSW's proposed capital expenditure program is 0.2% lower than the average annual allowance over the 2020 determination period.

WaterNSW later put forward $330.6 million for its capital program for a 3-year period (average of $110.2 million per year) in its June 2025 submission to our Information Paper.[66]

5.3 Some stakeholders considered that costs need to increase by more than proposed in our Information Paper

In our Information Paper published in May 2025 we made a draft decision to set prices based on current levels, adding increases for inflation and specific increases to reflect safety-related priorities.

Some submissions to the Information Paper expressed the view that these prices do not provide WaterNSW with enough capital expenditure and that delaying capital investment will create a backlog of projects, which is not in the long-term interest of customers. Stakeholder submissions to the Information Paper are discussed in more detail in Chapter 3 of this Draft Report.

Our draft decision on capital expenditure in this Draft Report is based on our analysis of information provided by WaterNSW in its September 2024 proposal and its June 2025 submission and takes into account the independent expert advice received from Aither and Atkins. We consider the capital expenditure allowance we have set in this Draft Report would provide WaterNSW with a sufficient amount of revenue to meet its statutory and legislative obligations and maintain or improve its assets and services over the upcoming determination period.

5.4 We propose to set capital expenditure at $370.5 million over the 2025 determination period

Our draft decision is:

4. To set the efficient level of capital expenditure to be included in the notional revenue requirement for the 2025 determination period at $370.5 million, as shown in Table 5.2.

Table 5.2 Draft decision on WaterNSW's efficient capital expenditure for the 2025 determination period ($millions, $2024-25)

	2025-26	2026-27	2027-28	Total
Total capital expenditure	**113.9**	**106.0**	**150.6**	**370.5**
WaterNSW's September 2024 proposal	164.3	300.9	370.8	836.0
Difference from proposal ($m)	*-50.4*	*-194.9*	*-220.2*	*-465.4*
Difference from proposal (%)	*-30.7%*	*-64.8%*	*-59.4%*	*-55.7%*

Note: Based on WaterNSW's September 2024 pricing proposal, not updated for the revised Warragamba Dam resilience project timeline.

Source: IPART analysis.

The capital expenditure allowance we set for WaterNSW represents our view on the overall envelope of capital expenditure that we consider reasonable to maintain or improve WaterNSW's assets and services over the upcoming determination period, and that should be recovered through prices. It does not signal the amount it is required to spend on specific capital projects, or discrete allowances for specific works. We expect WaterNSW to continue to review its expenditure and service priorities and strive to optimise customer value. This may mean revising its capital program up or down, substituting operating costs for planned capital expenditure, or to shift expenditure between one service and another, where these changes are prudent, efficient, and in customers' best interests.

We have made a draft decision to set efficient capital expenditure at $370.5 million over the 2025 determination period (i.e. $123.5 million per year over 3 years). This is $8.2 million (or 7.2%) higher per year than the average annual allowance we set for the 2020 determination period. We consider that the average allowance over the 2020 Determination is an appropriate comparator for capital expenditure as capital expenditure tends to be more lumpy or intermittent than recurrent.

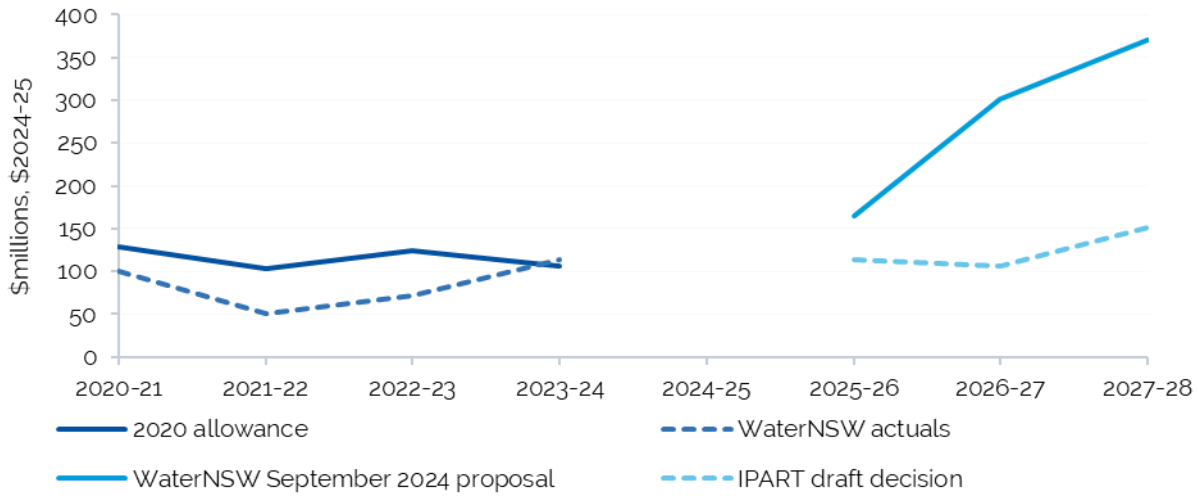
Table 5.3 shows the average annual capital expenditure based on our 2020 Determination, the allowance and actuals for 2023-24, WaterNSW's September 2024 proposal and its June 2025 submission, and our draft decision.

Table 5.3 Average annual capital expenditure ($millions, $2024-25)

	2020 Determination average allowance	2023-24 allowance	2023-24 actuals	WaterNSW Sept 2024 proposal	WaterNSW June 2025 submission	Draft decision
Capital expenditure	115.3	105.5	113.7	297.2	110.2	123.5

Note: WaterNSW overspent on its allowance for 2023-24 but underspent by $138.8 million (or 23%) on the efficient funding envelope set in the 2020 Determination.

Figure 5.1 Comparison of our draft decision with historical capital expenditure and WaterNSW's proposal



Source: IPART calculations.

5.4.1 We engaged Aither to help us assess WaterNSW's proposed capital expenditure

Aither examined the top 5 projects in WaterNSW's proposed capital expenditure program in WaterNSW's September 2024 proposal. These are:

1. Warragamba Dam Resilience ($609 million)
2. Warragamba Dam E-flows ($302 million)
3. Warragamba Pipeline Renewals ($97.8 million)
4. Cataract Dam Safety and Upgrade ($35.7 million)
5. The balance of the water infrastructure renewals program not reviewed as part of a specific project above ($270.4 million).[67]

Together, these account for $1,314.7 million (or 88%) of WaterNSW's proposed capital expenditure. Aither's findings on each of these projects are summarised in Table 5.4.

Table 5.4 Aither's recommendations and findings on the top 5 projects

Project	Lower bound	Upper bound	Aither's findings
Warragamba Dam Resilience	$6 million	$6 million	The Final Business Case (FBC) is not complete. The project is therefore too uncertain, in terms of whether it will proceed and the timing and cost of the preferred option, to justify expenditure beyond that required to deliver the FBC in this determination period.
Warragamba Dam E-flows	$0	$302 million	Project is well developed and has clearly articulated drivers, benefits and costings. The project has already been delayed and deferred, resulting in substantial increases in project cost estimates.
Warragamba Pipeline Renewals	$60.35 million All coating works are deferred	$96.11 million Tranche 5 coating works (proposed to commence from 2028-29) are deferred.	The need for the Warragamba Pipeline Renewals project is demonstrated by the criticality of the infrastructure, the age of the infrastructure, reported failures and condition assessments. The low level of detail in the estimates for the Tranche 4 Coatings and Tranche 5 Coatings is concerning.
Cataract Dam Safety and Upgrade	$7.15 million	$7.15 million	There are dam safety risks present at Cataract Dam that should be addressed through the Cataract Dam Safety Upgrade Project. However, the level of risk, and impact of the identified solution/s remain in question and must be resolved. Aither recommends undertaking one of the two initially proposed upgrade works.
Water infrastructure renewals program	$156.7 million Projects that have a maximum individual benefit score of Medium or Low would be deferred.	$265.2 million Projects that have a maximum individual benefit score of Low would be deferred.	Of the 147 projects proposed there are a large number that need to be completed. However, the prioritisation approach taken by WaterNSW to determine what is included (based on a benefits score of 0.2) appears arbitrary and lacks justification of prudency or efficiency.

Source: Aither, Expenditure Review of WaterNSW – Final Report, July 2025, pp 5-25.

The balance of WaterNSW's proposed capital expenditure includes:

- $49.9 million of digital capital expenditure. Aither referred to the recommendations of Atkins in their review of WaterNSW digital operating and capital expenditure across the Greater Sydney, Rural Valleys and WAMC pricing reviews. Atkins' report on its assessment of WaterNSW's proposed expenditure for the Rural Valleys determination, which includes its assessment of WaterNSW's proposed digital expenditure, is available on our website.[68]
- For the remaining $121.2 million Aither made no specific recommendation, having not undertaken a detailed review of that expenditure. However, given no systemic issues were identified during the review of the selected projects, Aither believed that IPART can, with reasonable confidence, allow 100% of the remaining capital expenditure proposed by WaterNSW.[69]

5.4.2 Our draft decisions on WaterNSW's key capital projects

This section steps through our considerations and explains how we reached our draft decisions on WaterNSW's proposed capital expenditure. While we considered recommendations by projects individually, the draft capital expenditure allowance we have set represents our view on the overall envelope of capital expenditure that we consider is reasonable. It is the responsibility of WaterNSW to reprioritise its spending where needed and manage its business within the revenue envelope.

Warragamba Dam Resilience

We propose to include costs for the Warragamba Dam Resilience project.

WaterNSW initially proposed to spend $609 million over the 5-year period from 2025-26 to 2029-30, followed by $357 million in the next pricing period.[70]

During the course of this review WaterNSW revised this to $406 million for the next 5 years due to new climate modelling requirements stemming from new Australian Rainfall and Runoff Guidelines (amended in November 2024) that will delay the project delivery.

Based on WaterNSW's revised forecast expenditure, the total capital cost over the next 3 years is $82 million. The bulk of WaterNSW's proposed expenditure on this project is expected to occur beyond the next 3 years.

As discussed in our Information Paper, while at this stage, the project costs and the scope of work for the Warragamba Dam Resilience Project have not been finalised, there is sufficient justification, based on the matters in the IPART Act which we must take into account, to include enough capital for WaterNSW to progress the Warragamba Dam Resilience project to improve dam safety.

Warragamba E-flows

On balance, we propose not to include costs for the Warragamba E-flows project in the prices we set for the next 3 years.

We recognise that Aither found that the project is well developed and has clearly articulated drivers, benefits and costings. However, we note that WaterNSW deferred the project despite having received an allowance for this in the 2020 determination period, and it has not prioritised the project as a critical and urgent top 5 project in its June 2025 submission to our Information Paper.[71] Additionally, the project does not impact WaterNSW's ability to deliver its core business.

IPART determinations allow an envelope for efficient expenditure which enables water businesses to reprioritise their spending as a determination period progresses. Any efficient expenditure by WaterNSW on the Warragamba E-flows project over the 2025 determination period could be rolled into the RAB in the future, based on our findings in a future review.

Aither's expenditure report noted that there would be an associated reduction in recurrent operating costs in the 2025-30 period of $315,000 per annum under the deferral of the E-flows project.[72] We have adjusted for this in our draft decision on controllable operating expenditure.

We expect our draft decision on Warragamba E-flows – one of the major projects in WaterNSW's proposed capital program – could impact the overall pool of overheads for WaterNSW, as well as the allocation these costs between operating and capital expenditure and across WaterNSW's separate determinations. We are seeking more information from WaterNSW on its corporate overhead costs for consideration in our Final Report (see section 4.3.3).

Warragamba Pipeline Renewals

Aither recommended deferring all coating works in its lower bound estimate as it found that the low level of detail in the estimates was concerning.

However, Aither's report also stated that the external coating works in Tranche 4 are noted to have extreme benefits with recent assessment indicating that the coatings have reached the end of their useful life, and deferral does carry a risk of interruption of supply from pipe failures should further deterioration of assets occur due to the delay in the external coating work.[73] As a result, Aither recommended including Tranche 4 coating works in its upper bound estimate.

Our draft decision is to adopt Aither's upper bound estimate, to recognise the risk of further deterioration due to delays in coating works. We also note that WaterNSW has identified Warragamba Pipeline works as one of its critical and urgent projects in its June 2025 submission.[74]

Cataract Dam Safety and Upgrade

We have adopted Aither's lower bound estimate. Aither did not provide an upper bound estimate.

This covers WaterNSW's proposed costs for one of two upgrade works. Our draft decision is based on Aither's finding that there is sufficient evidence that a single upgrade can manage the dam safety risks to an acceptable level (provided interim risk mitigation measures are undertaken, including a contingency plan for a failure of the spillway wall).[75]

Water infrastructure renewals program

We have adopted Aither's lower bound estimate, based on Aither's finding that this carries a low risk. This is because medium and low benefits across the 7 criteria provide only a medium risk of an incident related safety, environmental harm or interference of supply.[76]

Digital expenditure

Atkins benchmarked WaterNSW's digital spend as a percentage of total expenditure against comparable businesses in Australia, the UK and globally. It found that WaterNSW's digital spend is significantly higher than comparable businesses and is a 'significant outlier' based on WaterNSW's proposed total expenditure. Atkins' lower bound recommendation is based on maintaining WaterNSW's current level of digital spend as a percentage of total expenditure (based on the 2021 to 2025 period). While this rate is significantly higher than any comparator, Atkins noted that this would represent a very significant reduction compared to WaterNSW's proposal.[77]

Atkins did not recommend the lower bound, citing risks in lowering WaterNSW's digital expenditure to this extent. Atkins considered that WaterNSW would have to prioritise its investments based on mandatory obligations, such as cybersecurity, as well as maintaining capability for basic business needs. Atkins also considered the potential risk that WaterNSW would have to carry on using systems that are no longer supported by suppliers, and the inherent challenges that this may pose.[78]

Atkins' upper bound recommendation is based on adjustments to specific digital programs and projects. It recommended a 40% decrease for programs whose level of costs are not sufficiently justified, removing the Water Insights Portal project as the benefits are not mandatory or core, and removing the Digital Operations Support project because the expenditure is not justified and there are other mechanisms which provide better value for money.[79]

We have adopted Atkins' upper bound estimate, to recognise the potential risks Atkins identified.

Chapter 6

Notional revenue requirement

06

Summary of our draft decisions on revenue requirement

Set WaterNSW notional revenue requirement at $824.8 million over the 2025 determination period

This is $30 million or 12.3% higher per year than WaterNSW annual average revenue requirement over the 2020 determination period.

This is $155 million (or 15.8%) lower than WaterNSW's September 2024 proposal, and $71 million (or 8%) lower than WaterNSW's June 2025 submission. This difference is primarily due to our draft decision on lower efficient operating expenditure, which is $22.3 million (or 16.8%) lower per year than WaterNSW proposed.

Our draft decision also includes revenue adjustments for debt costs and the deferral year.

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

- Return on assets
- Return of assets (also known as the regulatory depreciation allowance)
- Working capital allowance
- Tax allowance
- Revenue adjustments.

Our 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 weighted average cost of capital (WACC) is an important component of ensuring that the maximum prices we set for WaterNSW can promote competition and protect 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 firm operating in a competitive market. The WACC also enables WaterNSW to maintain its dividend requirements to the NSW Government.

6.1 WaterNSW's notional revenue requirement for its Greater Sydney business is $824.8 million over 3 years

Our draft decision is:

5. To set the notional revenue requirement at $824.8 million over the 2025 determination period.

WaterNSW's notional revenue requirement is calculated as a build-up of various cost components – such as operating expenditure allowances, capital allowances and allowances for tax. We refer to each of these cost components as 'building blocks'.

We have calculated each of these building block cost allowances and by adding them together, we arrive at a notional revenue requirement for WaterNSW of $824.8 million over the 2025 determination period. This amount represents our draft assessment of the total revenue WaterNSW is expected to generate to recover the efficient costs of providing its services to customers.

Figure 6.1 illustrates the build-up of the notional revenue requirement (NRR) using our standard building block approach. These are the totals over WaterNSW's 3-year determination period.

Figure 6.1 Building block approach

	Cost building blocks	Total over the determination period
	**Operating allowance** (Operational costs including administration)	$330.1 million
	+	
	**Capital allowances**	
Return on assets + =	**Regulatory asset base (RAB)** = (Opening RAB + efficient capital expenditure – regulatory depreciation – asset disposals) x **Weighted average cost of capital (WACC)**	$256.7 million
Return of assets =	Regulatory depreciation of the RAB	$200.5 million
	+	
	Working capital allowance	$6.9 million
	+	
	Tax allowance	$22.1 million
	+	

Other costs:	
Cost of debt true-up	-$6.1 million
Deferral year	$14.6 million
Notional revenue requirement	$824.8 million

Note: All dollar values shown are in $2024-25 terms. Figures may not sum due to rounding.

Our draft decision is 15.8% lower than WaterNSW's September 2024 proposal and 8% lower than its June 2025 submission, which is largely driven by our draft decisions on a lower level of efficient operating and capital expenditure. Table 6.1 compares our draft decision on WaterNSW's notional revenue requirement with its September 2024 proposal.

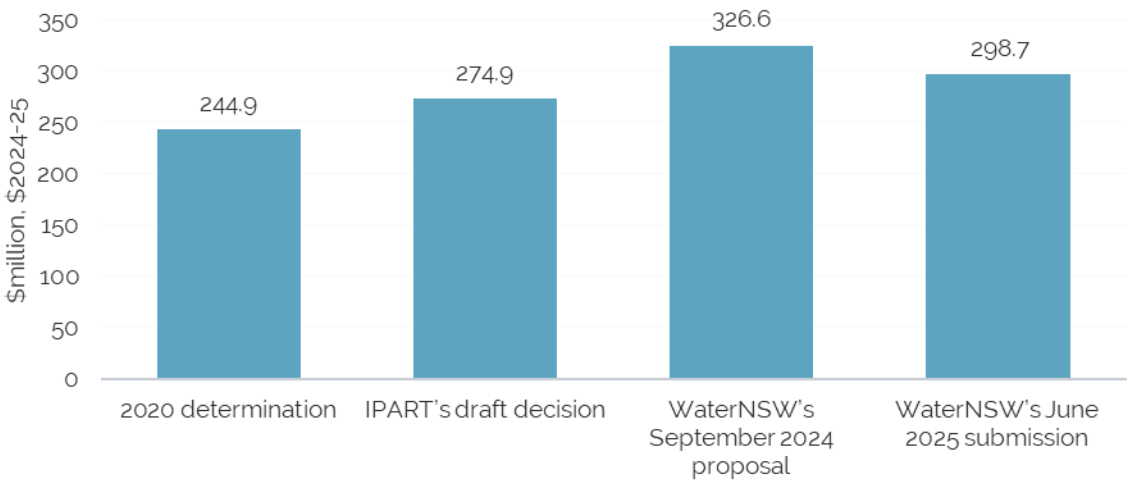
Table 6.1 Draft decision on total notional revenue requirement for the 2025 determination period ($million, $2024-25)

	WaterNSW's September 2024 proposed total NRR	IPART's draft decision on total NRR
Operating expenditure	391.4	330.1
Return on assets	277.1	256.7
Return of assets (depreciation)	256.8	200.5
Return on working capital	6.0	6.9
Tax allowance	29.4	22.1
NRR before adjustments	960.6	816.3
Cost of debt true-up	3.9	-6.1
Deferral year	15.2	14.6
NRR after adjustments	979.8	824.8

Note: Figures may not sum due to rounding.
Source: WaterNSW September 2024 price proposal and IPART analysis.

Figure 6.2 compares our draft decision on WaterNSW's annual average notional revenue requirement with the 2020 determination, its September 2024 proposal and its June 2025 submission.

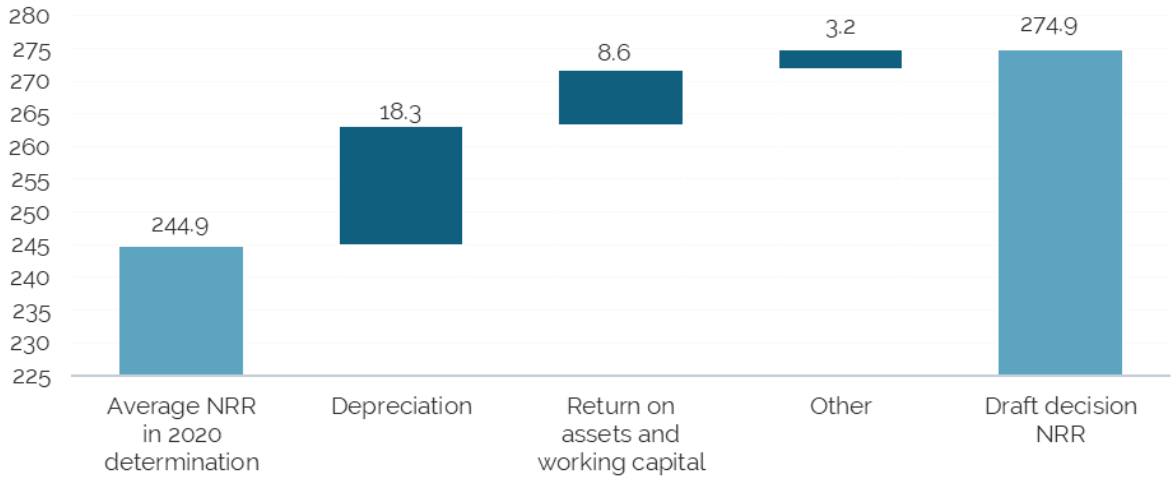
Figure 6.2 Average annual NRR under the 2020 determination, IPART's draft decision and WaterNSW's September 2024 proposal and June 2025 submission



Note: Figures may not sum due to rounding.
Source: WaterNSW September 2024 price proposal, WaterNSW June 2025 submission to Information Paper and IPART analysis.

Figure 6.3 shows the key drivers of the increase in the NRR under our draft decisions.

Figure 6.3 Average annual NRR under the 2020 Determination compared to IPART's draft decision ($millions, $2024-25)



Source: IPART, Review of prices for WaterNSW Greater Sydney from 1 July 2020 – Final Report, June 2020 and IPART analysis.

The average annual NRR under our draft decision is 12.3% higher compared to the 2020 determination period. This is mainly driven by higher depreciation and a higher return on assets.

In our 2020 review we decided to calculate depreciation for new assets on a disaggregated basis, as this would better match the actual profile of asset consumption through time (while maintaining the existing approach to depreciating existing assets to support a transition from the old to new approaches over the medium- to longer-term). We consider that this change supports intergenerational equity and means that customers pay for their fair share of short- and long-lived assets, at any point in time.

The outcome of this transition is that depreciation for shorter-lived assets categories under our draft decision has increased relative to the 2020 determination period, as these new shorter-lived assets are now depreciated over a shorter period, rather than over the weighted average life of all assets in the RAB. The increase in depreciation is also due to an increase in digital expenditure as a proportion of capital expenditure under our draft decision, compared to the 2020 determination period.

The increase in the return on assets component is due to a higher RAB as well as a higher real post tax WACC (from 3.4% under the 2020 Determination, to 3.6% under our draft decision).

The following sections step through our draft decisions on each of the building block components of WaterNSW's notional revenue requirement.

A full breakdown of our draft decisions on WaterNSW's building blocks is provided in Appendix D.

6.2 Rolling forward the regulatory asset base

In calculating the value of the regulatory asset base (RAB), we considered the appropriate value of assets that WaterNSW should earn a return on under our regulatory settings, pursuant to sections 14A(2)(e) and 15(1)(g) of the IPART Act.

The RAB represents the value of WaterNSW's assets on which it should earn a return on capital and an allowance for depreciation. We calculated the opening RAB for the 2025 determination period by "rolling the RAB forward" from the previous determination period.

To do this we:

- added $558.6 million of historical capital expenditure (net of capital contribution) from the 2020 determination period
- deducted $23.9 million in asset disposals
- deducted $267.0 million for the regulatory depreciation of assets
- added $418.2 million to account for annual indexation.

To calculate the RAB for each year of the 2025 determination period we then:

- added $370.5 million of forecast capital expenditure, which is based on the efficient capital expenditure allowance set out in Chapter 5, net of cash contributions
- deducted $1.4 million in asset disposals
- deducted $204.0 million for the regulatory depreciation of assets.

Our calculations result in the RAB increasing from $2,311.1 million on 1 October 2025 to $2,476.1 million by 30 June 2028.

Our full RAB roll forward calculations are shown in Appendix D.

6.3 Return on assets

Our draft decision is:

6. To set an allowance of $256.7 million for the return on assets component of the notional revenue requirement, noting that:
   a. the opening RAB on 1 October 2025 is $2,311.1 million
   b. we added $370.5 million in capital costs, net of disposals and depreciation
   c. we used a real post tax WACC of 3.6% as the efficient rate of return.

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 regulatory asset base (RAB) over the determination period by an efficient rate of return.

We calculated a return on assets allowance of $256.7 million for WaterNSW over the 2025 determination period.

6.3.1 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 weighted average cost of capital (WACC). We used our standard WACC approach[80] to calculate a WACC of 3.6% for WaterNSW's draft prices. This is the same as the 3.6% WACC that WaterNSW used to calculate the revenue requirement in its September 2024 pricing proposal.

The equivalent pre-tax real WACC is 4.5%.

In reaching our decision on WaterNSW's WACC we considered the matters set out in sections 14A(2) and 15(1) of the IPART Act.[a] Under our WACC methodology we benchmark the rate of return that we use to set prices to what would be earned by a similar firm operating in a competitive market. This means that customers' bills only fund an efficient and competitive rate of return, and customers are protected from monopoly suppliers passing on inefficient costs through prices. Our inclusion of a WACC in the building block calculation also allows WaterNSW to maintain its dividend requirements to the NSW Government.

More detail on our WACC calculation is provided in Appendix C.

[a] Specifically, we consider sections 14A(2)(d), 14A(2)(e), 14A(2)(h), 15(1)(b), 15(1)(c), 15(1)(g) and 15(1)(i) of the IPART Act.

6.4 Return of assets (regulatory depreciation)

Our draft decision is:

7. To set the return of assets (regulatory depreciation allowance) as $200.5 million.

We include an allowance for depreciation in the notional revenue requirement to allow the capital invested by WaterNSW in its regulatory assets to be returned over the useful life of each asset.

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. We consider this method balances the need for simplicity, consistency and transparency.

We did not make changes to underlying asset lives for any asset types.

Appendix D shows our draft decisions on asset lives for the 2025 determination period.

6.5 Return on working capital

Our draft decision is:

8. To set the return on working capital as $6.9 million over the 2025 determination period.

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 allows the business to recover the cost it incurs due to the time delay between providing a service and receiving the money for it (i.e. when the bills are paid).

In 2018, we developed a standard approach to calculate the working capital allowance, which can be found on our website.

The amount we allowed for the 2025 determination period represents the holding cost of net current assets.

6.6 Tax allowance

Our draft decision is:

9. To set a tax allowance of $22.1 million over the 2025 determination period.

When setting maximum prices, we include 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. This tax allowance reflects the regulated business' forecast tax liabilities. The tax allowance is not intended to recover WaterNSW's actual tax liability for Greater Sydney 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 full efficient costs a business would incur if it were operating in a competitive market (including if it were privately owned). 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.

We applied our standard method to set the tax allowance. We calculate the tax allowance for each year by applying the relevant tax rate, adjusted for the value of imputation credits, to the business's taxable income. For this purpose:

- Taxable income is the notional revenue requirement (excluding tax allowance) less operating cost allowances, tax depreciation, and interest expenses.
- We require the business to provide forecast tax depreciation, which we may adjust to reflect the Tribunal's decisions on capital expenditure.
- Other items such as interest expenses are based on the parameters used for the WACC, and the value of the RAB and working capital.

Box 6.1 Refining our approach to tax allowances for capital contributions

Regulated businesses can receive capital contributions, including capital grants, towards infrastructure. When calculating a business's tax allowance in our notional revenue requirement, we typically include an allowance for income tax that it would need to pay on cash contributions.

We have refined our usual approach of calculating tax allowances for cash capital contributions to account for imputation (franking) credits. Our current approach sets aside 30% of cash capital contributions for income tax. However, we recognise that this does not allow for the value of franking credits. If we were to account for franking credits, we would instead set aside 22.5% of cash contributions for income tax.

Box 6.1 Refining our approach to tax allowances for capital contributions

WaterNSW does not expect to receive any cash capital contributions toward infrastructure for Greater Sydney over the 2025 determination period.

Businesses can also receive capital contributions in form of assets constructed by developers and gifted to the business, known as assets free of charge (AFOC). WaterNSW does not receive any AFOC.

6.7 Revenue adjustments

Our draft decision is:

10. To make the following adjustments to the notional revenue requirement over the 2025 determination period:
    a. -$6.1 million for the cost of debt true-up
    b. $14.6 million for the deferral year true-up.

6.7.1 We have trued-up WaterNSW's cost of debt to -$6.1 million

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, or
- use a regulatory true-up at the next period, which we would pass through to prices at the beginning of the next period.

We have made a draft decision to use a true-up approach for changes to the cost of debt. We consider this reduces price fluctuations within price periods for customers while ensuring that businesses are adequately compensated for changes in the cost of debt that occur within each price period.

We have calculated a cost of debt true-up for the 2020 determination period of -$6.1 million. Our draft decision is to include this true-up as an adjustment to WaterNSW's 2025–28 NRR. This true-up of -$6.1 million has the effect of reducing the NRR.

6.7.2 We have trued-up the cost of WaterNSW's deferral year to $14.6 million

In 2021, we agreed to defer the scheduled 2023–24 water price review for WaterNSW by one year. This meant that the 2023–24 prices set out in the 2020 Determination remained constant in nominal terms in 2024–25. As a result, WaterNSW under-recovered its efficient costs over 2024–25. IPART agreed to true-up the efficient costs of the deferral year that WaterNSW did not recover through prices and consider including those costs in setting prices for the 2025 determination period

We have accepted WaterNSW's proposal that it should recover deferral year costs and calculated the amount to be $14.6 million. To do this, we calculated the NRR for one year based on 2024–25 parameters and our standard building block approach. The true-up amount is the difference between our calculation of the NRR for 2024–25, and the revenue the business expects to receive in 2024–25, based on actual prices and forecast volumes. This is not a true-up to the actual costs incurred by the business, but a true-up compared to if we had set prices in our usual way for 2024–25.

This differs from WaterNSW's September 2024 proposal of $22.2 million because we used our estimate of efficient operating costs in 2024-25, which is $22.7 million lower than proposed by WaterNSW. These lower operating costs are partially offset by our estimated depreciation allowance, which is higher than WaterNSW's proposal, as well as updated demand forecasts which resulted in lower expected revenue from prices than WaterNSW's proposal. We used a lower WACC of 3.1%. We calculated the WACC as though a new 4-year determination period would start in 2023–24, whereas WaterNSW used the WACC from the 2020 determination period of 3.4%.

Appendix D provides further explanation and calculation of the deferral year true-up.

Chapter 7

Price control and risk sharing

07

Summary of our draft decisions on price control and risk sharing

Not accept WaterNSW's proposed revenue cap

We are not convinced that a move away from the current price cap approach would be in customers' interests.

Maintain the drought water usage price

We have maintained our dynamic pricing approach, where usage charges are higher during periods of drought.

Remove the Sydney Desalination Plant volumetric charge adjustment

Under this approach, WaterNSW would no longer be fully protected from the demand risk of Sydney Water purchasing more water than forecast from SDP.

Maintain the Shoalhaven Transfer (and update benchmark energy costs)

We consider the existing cost pass-through for these costs is appropriate and efficient and accept WaterNSW's updated energy cost forecasts.

Not accept WaterNSW's other proposed cost pass-throughs

WaterNSW proposed 4 other pass-throughs including for Warragamba Deep Pump Station, projects undertaken for Government, operating licence changes, and general pass-through events. We do not consider any of these meet our criteria for efficient cost pass-throughs.

One of the key themes we are considering through this price review is the allocation of risks between WaterNSW (including its shareholder, the NSW Government) and its customers. WaterNSW proposed to decrease its share of cost and revenue risks associated with our price determination and increase its customers' share of these risks. In this chapter, we discuss our draft decisions on allocating revenue risks and allocating cost risks, as well as mechanisms to encourage efficiency.

Revenue risk is the risk that the business would face revenue volatility from fluctuations in water sales. It exists because of the potential for an unforeseen event or condition to occur during the determination period which negatively affects WaterNSW's ability to meet the forecast water sales (used to set prices) and not be able to generate revenue equivalent to the NRR. We discuss this in section 7.1.

Cost risk is the risk that new and unforeseen costs may arise that are not reflected in prices. We discuss this in section 7.2

7.1 Price control

7.1.1 Revenue cap

Our draft decision is:

11. To not accept WaterNSW's proposed revenue cap and instead retain the current price cap approach to setting prices.

In its September 2024 proposal, WaterNSW proposed moving away from maximum prices as a form of price control. Instead, it proposed implementing a revenue cap which would set the maximum revenue from customers, with a side constraint that would limit price changes for customers to year on year by +/- 2%.[81]

WaterNSW considers that a revenue cap would be a more appropriate form of price control because it is a largely fixed cost business (meaning having revenue tied to water demand is inefficient), and that it would support WaterNSW's long-term stability, therefore promoting the long-term interests of its customers.

We are not convinced that moving to a revenue cap would be in customers' interests. While WaterNSW claims to have customer support for a revenue cap,[82] responses to our Issues Paper do not reflect this claim. Stakeholders have raised concerns over the consultation process and information provided for the revenue cap, the options provided to customers and the lack of information of the impact of a revenue cap to customer bills.[83]

Further, we also have concerns with the consultation methods that resulted in customer 'support' for a revenue cap. Firstly, customers were only consulted on 2 options:

1. Keep the current form of control (price cap) with higher fixed charges, or
2. Move to a revenue cap and maintain the fixed portion of charges for most customers. A side constraint to help manage pricing volatility, based on customer feedback, was added as a design feature.

Secondly, WaterNSW relied on a survey of just 29 customers to demonstrate support for a revenue cap, which we are concerned is an insufficient sample size.[84] We note WaterNSW's response to this concern that the survey was just one of a number of engagement methods, and while this sample size consideration does not drive our main concerns, it is an example of where WaterNSW should look to improve customer engagement next time.

Finally, we are concerned that the information customers were given in expressing a preference over form of price control was biased towards a revenue cap. We reviewed the slides that discuss price and revenue caps that WaterNSW used at its customer engagement meetings which show the different outcomes for customers under different price and revenue cap scenarios. We consider the information presented could have been improved.

This is because it:

1. Used the past 10 years of usage as an indicator of future outcomes.
2. Did not explain that the reason customers paid more than was determined by IPART was because customers consumed more water than was forecast for the period contemplated.
3. Represented reduced bill variability as a benefit of a revenue cap ignoring that a revenue cap is likely to introduce price volatility and make prices less reflective of the amount of water used.

In addition to these concerns over customer support for a revenue cap, we are not convinced that WaterNSW's revenue is as volatile as it suggests. WaterNSW claims that 90% to 95% of its costs are fixed and do not vary with changes in customer water usage.[85]

The revenue that WaterNSW receives from Sydney Water is 80% predictable and reliable.[86] The amount of revenue that comes from variable charges to Sydney Water is relatively stable as demonstrated by Sydney Water's Demand Volatility Adjustment Mechanism (DVAM). The DVAM for Sydney Water shows a variation in demand of 6.1% (for 2012-13 to 2014-15); 5.6% (for 2016-17 to 2018-19); and -9.0% (for 2019-20 to 2023-24).[87] That is, the volatility in WaterNSW's revenue from Sydney Water was approximately 1%-2%.

The revenue from Sydney Water comprises of 80% of the total revenue that WaterNSW receives from both Sydney Water and its regional and rural customers. Taken together, the amount of WaterNSW's revenue that comes from fixed charges is around 74%. However, if we include the proportion of Sydney Water charges that are deemed variable but are in fact largely stable, the proportion of WaterNSW's revenue that is predictable and reliable is 88%. This would indicate that WaterNSW's exposure to revenue volatility is predominantly only to variation in usage for the regional and rural customers.

As stated above, taken as a whole entity, WaterNSW's revenue is largely predictable and reliable at 88% and the remaining 12% is unlikely to be zero for any given year. For the Greater Sydney component, there is very little revenue volatility and therefore we do not consider a change to a revenue cap is warranted.

Table 7.1 below summarises IPART's response to WaterNSW's proposal to implement a revenue cap.

Table 7.1 WaterNSW's stated benefits of a revenue cap

	WaterNSW stated benefit	IPART response
Improved services to customers	Greater incentive for WaterNSW to reduce its operational costs and drive further efficiencies for it to benefit from a fixed revenue.	WaterNSW would have this incentive under either form of price control.
Reduced risk to customers	Ensures accurate forecasting by removing any incentive to distort forecast demand.	WaterNSW relies on Sydney Water's demand forecasts for the vast majority of its forecasts.
Bill certainty to customers	Customers have certainty and predictability around their bills.	Price certainty is greater under a price cap making bills predictable.

	WaterNSW stated benefit	IPART response
Sustainable water management	WaterNSW is incentivised to promote sustainable management of water resources instead of relying on price signals, which may not directly incentivise appropriate water consumption practices as customers may simply pay the higher price.	Price signals are likely to drive more efficient water use and sustainable management of water resources than WaterNSW can deliver.
No more, no less	Revenue cap may not balance the account in any given period it does ensure that the revenue retained by WaterNSW is no more or no less than the revenue set by IPART.	With the side constraints, the adjustment each year will be limited. WaterNSW has proposed that the short-fall or excess revenue be captured in a carry forward balance.
Aligns with customer preferences	The majority of our customers recognised the benefits of a revenue cap including reducing the potential for 'bill shock' and lower costs over time.	There are considerable issues with the customer engagement process and alleged support for the revenue cap.

Note: The first 3 WaterNSW claimed benefits had regard to the proposed +/- 2% side constraint.

Source: WaterNSW, 2024 Pricing Proposal – Attachment 13 Form of control (revenue cap or price cap), September 2024, p 4.

7.1.2 Drought water usage charge

Our draft decision is:

> 12. To maintain the drought water usage charge.

In the 2020 price review, we introduced dynamic water usage pricing. We implemented 2 usage prices: one that applied during non-drought conditions, and a higher one that took effect during drought (as measured by dam storage levels). This was in recognition that during drought, we expect water sales to fall (due to water restrictions) and so prices need to rise to allow WaterNSW to continue to recover its efficient costs. In general, stakeholders were supportive of this decision.[88]

Our draft decision is to maintain this approach, in line with our decisions for the Hunter Water and Sydney Water reviews. We will continue to use a '60/70% trigger' for moving between drought and non-drought prices. We use a rolling daily pricing trigger, lagged by 1 month, so:

- Drought prices would be in place for 31 days after dam levels in the Greater Sydney catchment fall below 60%.
- The drought usage price would continue to apply until 31 days after dam levels are above 70%, at which the non-drought usage price would apply.

7.1.3 Sydney Desalination Plant (SDP) volumetric charge adjustment

Our draft decision is:

13. To remove the Sydney Desalination Plant volumetric charge adjustment.

In making our draft decisions on maximum prices for WaterNSW's Greater Sydney operations, we have considered the need to promote competition for the supply of bulk water services in the Greater Sydney area as required by the IPART Act.

In the 2020 Determination, we applied a volumetric usage formula to set the maximum usage charges that WaterNSW can charge its Large Customers (namely, Sydney Water). This is unlike our approach for WaterNSW's other Greater Sydney bulk water customers where we directly fix the maximum usage charge.[a]

Figure 7.1 Volumetric charge formula in the 2020 determination

$$Volumetric\ charge = \frac{Target\ Revenue\ from\ usage}{Forecast\ Sales - Volume\ produced\ by\ SDP} + \frac{Cost\ of\ Shoalhaven\ Transfer}{Actual\ Sales}$$

Drought adjustment (the Target Revenue and Forecast Sales values vary under drought and non-drought conditions)

SDP adjustment

Shoalhaven cost pass-through

The volumetric charge formula serves 3 functions:

1. **Drought adjustment:** provides for higher volumetric charges to apply during droughts, to account for forecast reductions in water sales on drought days when water restrictions are in place (discussed in section 7.1.2 above).
2. **SDP adjustment**: adjusts the usage charge that WaterNSW can charge to Sydney Water such that WaterNSW's revenue is not impacted by SDP's supply to Sydney Water in a drought.
3. **Shoalhaven cost pass-through**: passes through the actual electricity costs of pumping water through the Shoalhaven transfer scheme to its Large Customers (discussed in section 7.2.1 below).

At the time of our last determination for Greater Sydney, Sydney Water did not have discretion over when, and how much, water it bought from the SDP. The formula was introduced to address the risk that WaterNSW would under-recover revenue if its sales to Sydney Water reduced during droughts, when the SDP was required to supply water under full production[b] and Sydney Water was required to accept all water supplied by SDP. If Sydney Water purchased water from SDP (and consequently less than forecast from WaterNSW), WaterNSW's usage charge to Sydney Water would rise proportionately such that WaterNSW's revenue remained constant.

[a] Under section 13(A) of the IPART Act, IPART may set a methodology (e.g., a formula) for setting maximum prices if the Tribunal is of the opinion that it is impractical to make a determination directly fixing the maximum price.
[b] 250 ML/d

However, we consider that this volumetric charge formula is no longer fit for purpose. It compensated WaterNSW for a drought-related revenue risk that was uncertain and outside its control, but recent NSW Government policy changes have altered the nature of these risks, meaning that the volumetric charge:

- **Is no longer consistent with SDP's operating model:** the formula was designed with the purpose of minimising WaterNSW's revenue risk in periods when SDP was operational, so the usage price would only adjust during drought when SDP produced water at full capacity. This meant that the formula protected WaterNSW's revenue from the difference between SDP producing no water and SDP producing water at full capacity. SDP's new operating model has principally changed this risk for WaterNSW, given SDP now produces water flexibly, with a year-round minimum operating level.
- **Is not consistent with Sydney Water's draft determination:** in our Sydney Water draft report, we replaced the SDP cost pass-through mechanism with an allowance for SDP bulk water costs using an assumed average purchase volume.
- **Does not recognise that SDP's production has become more predictable:** in the past, SDP costs were unpredictable as they were triggered by the onset of drought. Under its new operating model, Sydney Water controls the volume of water it purchases from SDP. The volume of water Sydney Water is likely to purchase from SDP is more predictable now because:
  - We know Sydney Water must purchase a minimum of 50 ML/d from SDP (this is required under the new operating model) and
  - Since the SDP usage price is considerably higher than the WaterNSW usage price, and Sydney Water's determination no longer contains a pass-through, it is not unreasonable to assume Sydney Water would minimise its purchases from SDP.

  Based on this we applied a forecast of SDP bulk water purchases when setting Sydney Water's expenditure allowance, equivalent to 36 GL/year. We consider it is appropriate to apply the same SDP purchase estimates in setting WaterNSW's forecast demand from Sydney Water.

Our draft decision is to remove the SDP adjustment from the volumetric charge formula for Large Customers, and replace the drought adjustment with a:

- **maximum non-drought usage price**, calculated using demand forecasts that include average SDP purchase volumes (equal to the 36 GL/year level we assumed in the Sydney Water draft report)
- **maximum drought usage price**, calculated using demand forecasts that assume SDP operates at full capacity (250 ML/d)

We are confident that the degree of risk WaterNSW will face will be manageable and is in the long-term interest of customers. Firstly, the revenue risk WaterNSW will face is not material. Under our pricing structure, 80% of WaterNSW's revenue is derived from its fixed charge, and only 20% is from its variable usage charge. Since SDP can only produce up to 15% of Sydney Water's demand, SDP's **maximum** impact on WaterNSW's revenue from Sydney Water is 15% x 20% = 3%[c]. This impact is likely to be much lower under our recommended approach, since WaterNSW would be exposed to the revenue risk from fluctuations in actual SDP supply relative to our calculated average SDP supply (i.e., the short-term volatility around the long-term average).

Demand volatility is a risk that we expect other businesses, including Hunter Water and Sydney Water to bear – up to a certain threshold. Both businesses are exposed to 5% demand risk, with any larger under or over recoveries outside the 5% threshold accounted for by an end of period true-up under the demand volatility adjustment mechanism. Demand volatility has a higher revenue impact for these businesses, compared to WaterNSW, given that a much larger portion of their water revenue is derived from the usage charge.

The resulting volumetric charge is presented in Figure 7.2 below.

Figure 7.2 Draft decision on volumetric charge

$$Volumetric\ charge = Maximum\ price + \frac{Cost\ of\ Shoalhaven\ Transfer}{Actual\ Sales}$$

Drought or non-drought price (based on 60% on dam level trigger)

Shoalhaven cost pass-through

We note that this means that WaterNSW will be exposed to a degree of revenue risk from SDP, but we consider this is appropriate because it will:

- **Expose WaterNSW to some competition:** retaining the current SDP-adjusted volumetric charge protects WaterNSW from its only competitor, SDP.
- **Incentivise WaterNSW to improve its service delivery:** exposing WaterNSW to some degree of revenue risk will improve incentives for it to maintain or improve its services at a high standard. For instance, WaterNSW could seek to improve its service delivery by improving its catchment management strategies to optimise water quality outputs or improve its readiness to changes in demand levels or environmental incidents.
- **Support improved engagement between water businesses**: if WaterNSW is indifferent to whether SDP produces water (as it set out by the current volumetric charge formula), it faces few incentives to engage effectively with Sydney Water on demand forecasting and in the price review process. Exposing WaterNSW to a manageable level of revenue risk improves its incentives to engage early and effectively with Sydney Water and deliver better outcomes for customers.

[c] Under SDP's current capacity. If SDP were expanded, this maximum impact would double. We consider there is a very low likelihood that the SDP expansion will be completed and increased water production will commence within WaterNSW's 3-year determination period for its Greater Sydney operations.

Finally, our WACC method compensates regulated water businesses for the risks borne by a benchmark firm operating in a competitive market environment. In our view, exposing WaterNSW to the (albeit minor) competitive risk posed by SDP is consistent with our assumptions of the level of business risk factored into the WACC.

Seek Comment

2. What are your views on our draft decision to remove the Sydney Desalination Plant volumetric charge adjustment?

7.2 Risk sharing

7.2.1 Cost pass-throughs

Our draft decisions are:

14. To maintain the Shoalhaven transfers cost pass-through mechanism.

15. To not accept the proposed cost pass-throughs relating to:
    a. Warragamba Deep Water Pump Station
    b. Projects undertaken for Government
    c. Operating licence changes
    d. General pass-through events.

In general, we provide an envelope of expenditure for a business and expect the business to manage its operations within that envelope. However, when there is a known, material cost that the business cannot control, we can include a cost pass-through (up front) in the determination. If the costs are incurred within the determination period, the business can automatically pass the costs through to customers.

Cost pass-throughs are intended only for large step changes in costs with material impact on a business. In setting a cost pass-through we would review the efficient cost of managing an event and set a price or a methodology for calculating the price. This provides an appropriate balance of revenue risk management with oversight for consumer protection.

WaterNSW has proposed 5 cost pass-throughs for its Greater Sydney operations: one existing mechanism and 4 new ones. We have considered how each of these proposed pass-throughs fit our cost pass-through criteria, as outlined in our Water Regulation Handbook.

Our draft decision is to continue to apply the existing Shoalhaven cost pass-through but not to accept any of WaterNSW's new proposed pass-throughs. Below we explain our reasoning for each of these decisions.

Shoalhaven cost pass-through (existing mechanism)

This cost pass-through allows WaterNSW to pass through additional costs it incurs from the pumping of water from the Shoalhaven system to dams in Greater Sydney. In accordance with the Water Sharing Plan for the Greater Metropolitan Region Unregulated River Water Sources (2023), pumping is triggered when Sydney dam levels are below 75% and continues until storage levels reach 80%.[89]

Our draft decision is to maintain this mechanism (which passes costs from WaterNSW to Sydney Water). We consider that this mechanism meets our pass-through criteria in that WaterNSW does not have control over the trigger event, costs can be fully assessed, and costs are material. We estimate that the operation of the Shoalhaven transfer scheme would add around $75 to the usage charge per ML for Sydney Water.[d]

Warragamba Deep Water Pump Station cost pass-through

WaterNSW has proposed a new cost pass-through mechanism to pass through the costs associated with the operation of the Warragamba Deep Water Pump Station (DWPS) to Sydney Water. In its pricing proposal, WaterNSW notes that it is required to operate the DWPS when Warragamba Dam drops to critical levels in the DWPS operating range (i.e. below 20% of storage volume).[90]

WaterNSW has proposed that the DWPS cost pass-through mechanism should operate the same way as the Shoalhaven cost pass-through mechanism and using the same benchmark costs of electricity estimated by Frontier. We disagree with WaterNSW's proposal because the operation of the Shoalhaven transfer scheme is likely to be very different from the DWPS. We sought further information from WaterNSW on how it will tailor key parameters of the Shoalhaven formula to reflect the composite usage factor and benchmark electricity cost for the DWPS. However, WaterNSW has not provided better estimates on the basis that it has never operationally commissioned the DWPS.[e] Our view is that just because the DWPS has not been operated, does not mean its operation and energy requirements cannot be modelled.

While there is a clearly defined trigger event for the proposed DWPS cost pass-through, we do not consider that WaterNSW has provided sufficient information to support the resulting efficient forecast cost at this stage. Nor can we be confident that the cost would be material.

Our draft decision is to not accept the proposed cost pass-through mechanism. We are open to reviewing this decision if WaterNSW provides additional information to support its proposal ahead of the Final Report.

Projects undertaken for Government cost pass-through

WaterNSW also proposed a pass-through for costs associated with projects it must undertake as a result of Government-led business case and investment decisions. It argues that it cannot know the cost of these events at the time of the determination.[91]

[d] Indicative estimate based on Frontier's benchmark electricity prices, a composite usage factor of 1.96 MWh/ML, and an assumed 70,000 ML transferred through the Shoalhaven scheme per year.

[e] For context, since Warragamba was built in 1960, its lowest dam level ever reached was 32.4% in February 2007 during the Millenium drought. Warragamba Dam dropped to about 42% capacity (in mid-January 2020) during the 2017-20 drought.

We consider that without knowing costs (or even whether there will be any costs) we cannot allow this pass through. The event is not clearly defined and there is no 'trigger' that would start the mechanism, WaterNSW has not proposed any way to assess the efficiency of any costs that are incurred, and we do not have confidence that WaterNSW has no influence over whether the event occurs. Therefore, our draft decision is not to accept this mechanism.

Operating licence changes cost pass-through

WaterNSW has proposed a pass-through to recover costs associated with changes in WaterNSW's Operating Licence, arising from any IPART review, that WaterNSW has not fully assessed and incorporated.[92]

As with the government projects pass-through, we consider this pass-through is insufficiently specified and does not meet our criteria. For instance, no costs have been defined, and materiality is not clear.

WaterNSW's operating licence requires WaterNSW to conduct its activities in a manner that is efficient, resilient, reliable, sustainable and equitable. Where we consider changes to WaterNSW's operating licence may be necessary we consult with stakeholders and consider cost impacts through a detailed cost-benefit analysis before recommending major changes to licence conditions.

General pass-through events

Finally, WaterNSW has proposed a general pass-through to cover unforeseen costs relating to:

- 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, and
- Terrorism events.[93]

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.

WaterNSW proposed a similar pass-through in its last pricing review. We did not accept it 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.[94]

WaterNSW proposes that the mechanism be designed to allow IPART to determine the efficient pass-through amount, and the recovery period for the 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.[95]

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 it has some risks that it has 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 will be 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 pass-through mechanism is only applied when it is likely that the pass-through event will occur during the determination period and where only the efficient costs resulting from the event are pass through to customers.

7.2.2 True-ups

Our draft decisions are:

16. At the next review of WaterNSW's services in Greater Sydney, to ask the Tribunal to consider:
    a. Whether an adjustment to the revenue requirement and prices is required to address any over or under-recovery of revenue over the 2025 determination period due to changes in energy costs.
    b. Whether and how to make a revenue adjustment based on the circumstances at the time.

17. To not accept the proposed Sydney Desalination Plant volumes true-up.

While in general we expect businesses to manage within the expenditure envelope we set at the start of a determination, there are circumstances where this is not possible. If costs change materially during a determination period, businesses can apply for a true-up of costs at the next price review. These costs can then be recovered from customers in the following period.

WaterNSW has proposed 2 true-ups for its Greater Sydney operations in this determination period:

1. Electricity costs for the Shoalhaven cost pass-through
2. Sydney Desalination Plant volumes

Electricity cost for Shoalhaven pass-through

WaterNSW has proposed a true-up to sit alongside the Shoalhaven cost pass-through mechanisms. The proposed mechanism would true-up WaterNSW's electricity costs at the next determination period to eliminate the impact of electricity cost forecasting error.[96]

We have accepted WaterNSW's proposed benchmark energy price to apply to the mechanism for this determination. WaterNSW engaged Frontier to estimate benchmark prices by adopting a similar approach that was used for IPART at the 2020 Determination. We consider the approach to be reasonable as the methodology accounts for the impact of all the cost components of supplying energy, and how these components meet a constant load of the Shoalhaven system in a given period.

Given the uncertainty on energy prices, we see merit in considering a benchmark energy cost end-of-period true-up. It will be open to the Tribunal to consider and potentially adjust for any over or under-recovery due to changes in energy costs in the next review of WaterNSW's services in Greater Sydney.

Sydney Desalination Plant (SDP) volumes

WaterNSW has proposed a new true-up for variations between regulatory forecast and actual SDP water usage. WaterNSW argues that the operation of the SDP is outside of its control and can have a material impact on the variable charges to Sydney Water. It proposes that the revenue effect of the variance in SDP usage (positive or negative), to be added to its revenue requirement in the subsequent determination period.[97]

Our draft decision is to remove the SDP volumes charging mechanism (see section 7.1.3), and so this true-up is no longer applicable. Therefore, we our draft decision is to reject this true-up proposal.

Chapter 8

Price setting

Summary of our draft decisions on price setting

Demand

We accept WaterNSW's non-drought demand forecasts for the upcoming determination period for all customers except Sydney Water. Our draft decision for demand forecasts for Sydney Water are consistent with the draft decisions we have made as part of our concurrent review of Sydney Water, which largely accepts Sydney Water's proposed volumes, adjusted for the price elasticity of demand.

We are applying an 8% reduction to WaterNSW's non-drought demand forecasts to derive drought forecasts.

We accept WaterNSW's forecast customer numbers.

Deferred determination start

We extended our review of WaterNSW's prices by 3 months.

We propose to true-up the difference between revenue collected under current prices and what would have been collected under the new determination.

A key step in our price setting process is to decide on WaterNSW's forecasts for water sales and customer numbers for the WaterNSW Greater Sydney business. These forecasts are used to determine the price levels necessary to recover WaterNSW's NRR.

It is important that the forecasts are reasonable. Differences between forecast and actual water sales over the determination period will lead to an over- or under-recovery of revenue. If forecasts are lower than actual sales, customers will pay higher than efficient prices (as the utility will 'over-recover' relative to its efficient costs). If they are higher than actual sales, WaterNSW may not earn sufficient revenue to recover its efficient costs.

In this chapter, we present our draft decisions on WaterNSW's forecast water sales and customer numbers for this determination period.

8.1 Demand

Our draft decisions are:

18. To adopt the forecast water sales volumes outlined in Table 8.1.

19. To adopt the forecast customer numbers outlined in Table 8.2.

Understanding past and future demand for water services is important for setting prices. As required under sections 14A(2)(i) and 15(1)(j) of the IPART Act, we consider levels of demand when setting prices by using forecasts of:

- the number of customers we expect would receive water services in each year of the determination period (forecast customer numbers)
- the volume of water we expect a water business would provide for each of those years (forecast water sales volumes).

Further information on demand forecasts and what businesses are required to do to justify their forecasts is available in section 4.7.2 of the Water Regulation Handbook.

There are many of factors which impact water demand. The most important factors are:

- the population mix, number of dwellings, and mix of residential property types
- water efficiency schemes influencing adoption of water saving technologies
- changing consumption behaviours, including the influence of water conservation campaigns
- demographics of customers, including age and socioeconomic status, and
- a changing and more variable climate.

Water demand over the 2020 determination period was 14.4% lower than forecast, with less demand from Sydney Water accounting for most of the variation.

8.1.1 We mostly accepted WaterNSW's forecast sales volumes, but made adjustments based on updated forecasts for Sydney Water

Bulk water sales to Sydney Water make up around 99% of WaterNSW's total bulk water sales. The remaining 1% of bulk water sales come from WaterNSW's three council customers and its 59 raw and unfiltered bulk water customers.

We have made a draft decision to accept WaterNSW's non-drought demand forecasts presented in its September 2024 proposal for 2025-26 to 2027-28 for all customers except Sydney Water.

Our draft decision on water sales volumes for Sydney Water for the next 3 years reflects draft decisions we have made as part of our concurrent review of review of prices for Sydney Water Corporation to apply from 1 October 2025. Our draft decision for the Sydney Water review on forecast water sales volumes largely accepts Sydney Water's method, but adjusts volumes to reflect an elasticity response to our draft prices. This results in marginally lower sales volumes and total demand. For more information, see Chapter 8 of our Draft Report.

Sydney Water's drought sales forecasts are on average 8% lower than the non-drought sales forecasts and take into account the effects of water restrictions and price elasticity on demand.

Since all customers contribute to the draw-down of dam levels and should support the systemwide supply of water in times of low rainfall by reducing their usage, we consider that a similar reduction in drought sales should apply for all customers. Based on this, we applied an 8% reduction to WaterNSW's non-drought demand forecasts for its council and raw and unfiltered bulk water customers to derive drought forecasts for these customers.

Table 8.1 Draft decision on water sales volumes 2025-26 to 2027-28 (ML/year)

	2025-26	2026-27	2027-28
Non-drought			
Sydney Water	506,815	505,957	510,878
Wingecarribee Shire Council	4,748	4,748	4,748
Shoalhaven City Council	91	91	91
Goulburn Mulwaree Council	39	39	39
Raw and unfiltered	152	152	152
Total non-drought	511,845	510,987	515,908
Drought			
Sydney Water	406,387	408,436	414,250
Wingecarribee Shire Council	4,341	4,368	4,396
Shoalhaven City Council	83	84	84
Goulburn Mulwaree Council	36	36	36
Raw and unfiltered	139	140	141
Total drought	410,986	413,064	418,907

Source: WaterNSW, 2024 Pricing Proposal – Attachment 21 Forecast customer numbers and demand, September 2024, p 7 and IPART analysis.

We note that the forecast water sales volumes in Table 8.1 for Sydney Water are lower than those presented in our May Information Paper. This is due to our draft decision to remove the SDP component of the volumetric charging formula (see section 7.1.3). This change means that water sales volumes are now solely based on Sydney Water's forecast demand from WaterNSW, rather than Sydney Water's total forecast demand.

8.1.2 Wingecarribee Shire Council submitted that its forecast volumes should be higher

In its submission to the Information Paper, Wingecarribee Shire Council (WSC) rejected the forecast volumes. WSC submitted that the figures are unrepresentative of the community, being below the estimates provided by Council to WaterNSW in its Water Supply Agreement.[98]

WSC stated that the figures for drought are 22.5% below the realities Council experienced in the 2019/2020 drought. We note that WSC is subject to separate water restrictions to SWC customers, and WSC explained that during drought, the 15% of residences in the Shire that are off grid are reliant on Council's water supply to survive as their storages run dry.[99]

WSC also submitted that in recent years, actual non-drought demand volumes have been 5% higher than current WaterNSW forecasts and that there is no allowance for growth in the forecast water sales volumes, despite consistent forecast growth for the region.[100]

As discussed in section 8.1.1, our draft decision is to adopt WaterNSW's forecast for WSC for non-drought demand and apply an 8% reduction to this to derive drought demand.

We intend to seek further information from WSC and WaterNSW on water sales volumes for drought and non-drought conditions for consideration in our Final Report.

Seek Comment

3. Is there further information on actual water sales volumes for drought and non-drought conditions that IPART should consider in determining final demand figures for Wingecarribee Shire Council?

8.1.3 Our draft decision is to accept WaterNSW's forecast customer numbers

Forecast customer numbers are used in calculating fixed service charges. Given Sydney Water accounts for approximately 99% of WaterNSW's total water sales, the effect of customer numbers is not as important in setting prices as forecast bulk water sales.

In its September 2024 proposal, WaterNSW forecast no change in its customer numbers over the 2025 determination period compared to 2024-25 levels, which have been constant since 2017-18. We consider WaterNSW's forecast is reasonable.

Table 8.2 Draft decision on customer numbers 2025-26 to 2027-28

	2025-26	2026-27	2027-28
Wholesale customers	4	4	4
Raw water (i.e. unfiltered and untreated)	6	6	6
Unfiltered water (i.e. chemically treated)	53	53	53
Total customers	**63**	**63**	**63**

Source: WaterNSW, 2024 Pricing Proposal – Attachment 21 Forecast customer numbers and demand, September 2024, p 12.

8.2 Price adjustment for deferred determination start

We extended our review of WaterNSW's prices by 3 months to allow thorough consideration of its proposal (the 'deferral period'). As a result, the 2025 Determination will commence on 1 October 2025. In the meantime, WaterNSW will continue charging current prices for its bulk water, raw water and unfiltered water services in the Greater Sydney area.

We will true-up the difference between revenue collected under current prices and what would have been collected under the new determination, so neither WaterNSW nor customers are financially better or worse off from the delay.

To do this, we:

- calculated the notional revenue required to recover efficient costs for the 2025 determination period (see Chapter 6), and the prices needed to recover that revenue based on our draft price structure decisions for a 3-year determination period starting from 1 July 2025
- estimated the revenue WaterNSW would recover from customers between 1 July and 30 September 2025 under existing prices, and the shortfall in revenue due to the 3-month delay
- adjust draft prices to recover the estimated revenue shortfall and allow revenue neutrality over the 2025 determination period.

As a result, prices from 1 October 2025 are 0.2% higher to recover an expected $5.9 million shortfall.

Chapter 9

Draft prices

09

Summary of draft prices

Fixed charges are increasing for all customers under our draft decisions

Over the 3-year determination period, under our draft decisions:

- Sydney Water's fixed charges would increase to around $203.7 million in 2025-26, which is a 11.6% nominal increase. The fixed charge in 2027-28 would be around $248.7 million ($2025-26), which is around a 36.2% increase from current prices.

For other customers the fixed charge would increase by around 13.1% in nominal terms to 2025-26, then increase by around 10.4% plus inflation each year.

- Wingecarribee Shire, Shoalhaven City and Goulburn-Mulwaree councils' fixed charges would increase by around 13.1% in 2025-26 and by 37.8% to 2027-28. The dollar increases are different for each council.
- Fixed charges for unfiltered water customers would increase to around $131 in 2025-26 which is a 13.1% increase. The fixed charge would be approximately $160 ($2025-26) in 2027-28, which is around a 37.8% increase from current prices.

Usage charges are increasing for all customers under our draft decisions

Over the 3-year determination period, under our draft decisions:

- Sydney Water's non-drought usage charge would increase to $100.50/ML in 2025-26, which is a 19.6% nominal increase. The same usage charge in 2027-28 would be $121.70/ML ($2025-26), which is around a 44.8% increase from current prices.

For other customers the non-drought usage charge would generally increase by around 13.1% in nominal terms to 2025-26, then generally increase by 10.4% plus inflation each year.

- Wingecarribee Shire, Shoalhaven City and Goulburn-Mulwaree councils' non-drought usage charges would increase by 13.1% in 2025-26 and by 37.8% to 2027-28. The dollar increases are different for each council.
- Non-drought usage charges for raw water customers would increase to $0.86/kL in 2025-26 which is around a 13.2% increase. The same charge would be $1.05/kL ($2025-26) in 2027-28, which is around a 38.2% increase from current prices.
- Non-drought usage charges for unfiltered water customers would increase to $1.49/kL in 2025-26 which is around a 12.9% increase. The same charge would be $1.82/kL ($2025-26) in 2027-28, which is around a 37.9% increase from current prices.

The subsequent sections in this chapter also present prices that would apply during a drought.

This chapter sets out our draft decisions on prices that would apply for a 3-year determination period from 1 October 2025 to 30 June 2028 for WaterNSW's Greater Sydney bulk water customers:

- Sydney Water.
- Three local councils: Goulburn-Mulwaree, Shoalhaven City and Wingecarribee Shire councils.
- 59 raw and unfiltered bulk water customers.

9.1 We have proposed to continue setting a non-drought and drought usage price for all customers

Our draft decisions are:

20. To continue setting a non-drought and drought usage charge for all customers as shown in Table 9.1, Table 9.2 and Table 9.3.

21. To continue the rule where drought usage prices would apply when dam levels fall below 60% and remain in place until dam levels reach 70%. Otherwise, non-drought prices would apply.

All customers will be subject to either a non-drought or drought usage price. This is consistent with our draft decisions from previous chapters to:

- maintain the drought water usage charge as explained in Chapter 7
- incorporate the non-drought and drought water sales volume forecasts outlined in Chapter 8.

In our last determination, we introduced dynamic water usage pricing, where either a non-drought or non-drought usage price would apply. The drought usage prices would apply when dam levels fall below 60% and remain in place until dam levels reach 70%. Otherwise, non-drought prices would apply. This is shown as 'Usage (non-drought)' or 'Usage (drought)' prices.

The purpose of having dynamic water usage prices is to recognise that during drought water sales are expected to fall and WaterNSW's bulk water price will need to increase in order for it to recover its efficient costs.

WaterNSW's costs are predominantly fixed. This means that a reduction in water sales during drought will result in lower revenues that are not offset by lower costs. Therefore, in order to achieve full efficient cost recovery, the usage price must increase in drought to allow WaterNSW to continue to recover its efficient costs from the lower volume of water sales.

9.2 Draft prices for Sydney Water

WaterNSW's largest customer in the Greater Sydney area is Sydney Water, which accounts for about 99% of WaterNSW's bulk water sales in Greater Sydney. IPART sets the maximum price WaterNSW can charge Sydney Water for the water Sydney Water takes from Warragamba Dam and its other smaller dams around Sydney.

Our draft decisions are:

22. To set the maximum price for Sydney Water as shown in Table 9.1.
23. To maintain the price structure of 80:20 fixed to usage ratio for Sydney Water.

Table 9.1 presents our prices for Sydney Water and includes the scenario when the Shoalhaven Transfer Scheme would be in operation. Overall, when comparing current prices (2024-25) to 2027-28 prices[a], our draft decisions for Sydney Water are that the:

- Fixed charge would be approximately 11.6% higher in 2025-26 from 1 October, including inflation. This is then followed by increases of around 10.4% plus inflation on 1 July 2026 then by around 10.6% plus inflation on 1 July 2027. In 2027-28 the fixed charge would be $248.70 million. The average price per annum from 2025-26 to 2027-28 would be around $225.76 million per year.
- Non-drought usage charge would be approximately 19.6% higher in 2025-26 from 1 October, including inflation. This is then followed by increases of around 10.5% plus inflation on 1 July 2026 then by around 9.6% plus inflation on 1 July 2027. In 2027-28 the charge would be $121.70 per ML. The average price per annum from 2025-26 to 2027-28 would be around $111.10 per ML.
- Drought usage charge would be approximately 33.9% higher in 2025-26 from 1 October including inflation, assuming the Shoalhaven Transfer Scheme is not operational. This is then followed by increases of around 9.8% plus inflation on 1 July 2026 and by around 9.1% plus inflation on 1 July 2027. In 2027-28 the charge would be $150.09 per ML. The average price per annum from 2025-26 to 2027-28 would be around $137.68 per ML.

[a] The prices that would apply in 2025-26 include inflation to March 2025, which is consistent with IPART's CPI policy. Prices for 2026-27 and 2027-28 are expressed in $2025-26, as the price inflators for subsequent years are not known yet.

Table 9.1 Draft maximum prices for Sydney Water

	2024-25 ($2024-25)	2025-26 ($2025-26)	2026-27 ($2025-26)	2027-28 ($2025-26)	% change to 2025-26	%change to 2027-28
Fixed charge						
Fixed charge ($million/year)	182.62	203.74	224.84	248.70	11.6%	36.2%
Non-drought usage charge						
Non-drought usage charge ($/ML)	84.04	100.50	111.09	121.70	19.6%	44.8%
Drought usage charge						
Drought usage charge ($/ML) assuming: • Shoalhaven Transfer Scheme is not operational	93.61	125.33	137.62	150.09	33.9%	60.3%
Drought usage charge ($/ML) assuming: • Shoalhaven Transfer Scheme is operational[a]	NA	203.35	215.13	226.21	NA	NA

a. This is an indicative estimate based on an energy price of $175/MWh, an energy requirement of 1.96MWh/ML and an assumed 70,000 ML transferred through the Shoalhaven Transfer Scheme per year.

Source: IPART analysis

9.2.1 We propose to maintain the 80:20 fixed to usage price structure

In its September 2024 proposal, WaterNSW proposed implementing a revenue cap which would set the maximum revenue from customers, with a side constraint that would limit price changes for customers to year on year by +/- 2%.[101] We outlined in Chapter 7 that our draft decision is to not accept WaterNSW's proposed revenue cap and to maintain the current price cap approach.

Our draft decision is to maintain the 80:20 fixed to usage ratio for setting bulk water prices for Sydney Water. This 80:20 ratio was then applied to Sydney Water's share of the total revenue required from charges (see Chapter 6) to calculate the draft fixed and usage charges for Sydney Water.

9.2.2 We propose to remove the mechanism that adjusts usage prices when SDP is in operation

We have removed the adjustments made to usage prices if SDP supplies water to Sydney Water. This is to account for the fact that SDP's role has expanded beyond drought management. Under our proposed change, WaterNSW would be exposed to revenue risk when more water is supplied from SDP to Sydney Water. We consider that exposing WaterNSW to competition from bulk water supply would improve incentives for WaterNSW to engage effectively with Sydney Water and deliver better outcomes for customers. Our detailed reasonings are set out in Chapter 7.

9.2.3 We propose to maintain our approach of adjusting usage prices when the Shoalhaven transfer scheme is in operation

The cost pass-through mechanism allows WaterNSW to recover costs (ie, in addition to the approved notional revenue requirement) incurred when transferring water from Shoalhaven to Sydney. The usage charge increase will depend on how much water is transferred through this scheme. The adjustment to the usage price takes into account all components of electricity costs to pump water from the Scheme, based on benchmark energy prices.

The cost pass-through will also apply to WaterNSW's usage prices for only Sydney Water. That is, prices to the three council customers, and raw and unfiltered bulk water customers will not change due to the Scheme.

The Scheme cost-pass through mechanism is outlined further in Chapter 7. Our proposed off-peak and peak electricity prices ($/ML) are outlined in Part 2 of the Draft Determination.

9.3 Draft prices for council customers

WaterNSW has three council customers (ie, Wingecarribee Shire Council, Shoalhaven City Council and Goulburn Mulwaree Council) which account for most of the remaining 1% of its bulk water sales and revenue.

Our draft decision is:

24. To set the maximum price for Wingecarribee Shire Council, Shoalhaven City Council and Goulburn Mulwaree Council as shown in Table 9.2.

Table 9.2 presents our prices for the 3 council customers. Overall, when comparing current prices (2024-25) to 2027-28, our proposed price increases are generally uniform for all 3 councils:

- Fixed charges would be approximately 13.1% higher in 2025-26 from 1 October, including inflation. This is then followed by increases of around 10.4% plus inflation on 1 July 2026 then by around 10.4% plus inflation on 1 July 2027.
- Non-drought usage charges would be approximately 13.1% higher in 2025-26 from 1 October, including inflation. This is then followed by increases of around 10.4% plus inflation on 1 July 2026 then by around 10.4% plus inflation on 1 July 2027.
- Drought usage charges would be approximately 3.3% higher in 2025-26 from 1 October, including inflation. This is then followed by increases of around 9.7% plus inflation on 1 July 2026 then by around 9.7% plus inflation on 1 July 2027.

Table 9.2 Draft maximum prices for council customers

	2024-25 ($2024-25)	2025-26 ($2025-26)	2026-27 ($2025-26)	2027-28 ($2025-26)	% change to 2025-26	%change to 2027-28
Fixed charge ($/year)						
Wingecarribee Shire	1,152,036	1,302,504	1,438,128	1,587,852	13.1%	37.8%
Shoalhaven City	21,600	24,420	26,964	29,772	13.1%	37.8%
Goulburn Mulwaree	25,920	29,304	32,364	35,736	13.1%	37.9%
Non-drought usage charge ($/ML)						
All councils	60.01	67.85	74.91	82.71	13.1%	37.8%
Drought usage charge ($/ML)						
All councils	71.82	74.21	81.43	89.34	3.3%	24.4%

Note: Percentage increases may differ due to rounding.

Source: IPART calculations.

9.4 Draft prices for raw and unfiltered bulk water customers

Revenue from raw and unfiltered bulk water customers account for less than 0.1% of WaterNSW's bulk water sales and revenue.

Our draft decision is:

25. To set the maximum prices for raw and unfiltered bulk water customers as shown in Table 9.3.

Table 9.3 presents our prices for raw and unfiltered bulk water customers. Overall, when comparing current prices (2024-25) to 2027-28, our proposed price increases are:

- The fixed charge for unfiltered water customers would be approximately 13.1% higher in 2025-26 from 1 October, including inflation. This is then followed by increases of around 10.4% plus inflation on 1 July 2026 then by around 10.4% plus inflation on 1 July 2027.
- Non-drought usage charges for raw bulk water customers would be approximately 13.2% higher in 2025-26 from 1 October, including inflation. This is then followed by increases of around 10.5% plus inflation on 1 July 2026 then by around 10.5% plus inflation on 1 July 2027.
- Non-drought usage charges for unfiltered water customers would be approximately 12.9% higher in 2025-26 from 1 October, including inflation. This is then followed by increases of around 10.7% plus inflation on 1 July 2026 then by around 10.3% plus inflation on 1 July 2027.
- Drought usage charges for raw bulk water customers would be approximately 3.3% higher in 2025-26 from 1 October, including inflation. This is then followed by increases of around 9.6% plus inflation on 1 July 2026 then 9.7% plus inflation on 1 July 2027.
- Drought usage charges for unfiltered water customers would be approximately 3.2% higher in 2025-26 from 1 October, including inflation. This is then followed by increases of around 9.8% plus inflation on 1 July 2026 then by around 10.1% plus inflation on 1 July 2027.

Table 9.3 Draft maximum prices for raw and unfiltered bulk water customers

	2024-25 ($2024-25)	2025-26 ($2025-26)	2026-27 ($2025-26)	2027-28 ($2025-26)	% change to 2025-26	%change to 2027-28
Raw water customers						
Fixed charge ($/year)	-	-	-	-	-	-
Non-drought usage charge ($/kL)	0.76	0.86	0.95	1.05	13.2%	38.2%
Drought usage charge ($/kL)	0.91	0.94	1.03	1.13	3.3%	24.2%
Unfiltered water customers						
Fixed charge ($/year)	115.88	131.02	144.66	159.72	13.1%	37.8%
Non-drought usage charge ($/kL)	1.32	1.49	1.65	1.82	12.9%	37.9%
Drought usage charge ($/kL)	1.58	1.63	1.79	1.97	3.2%	24.7%

a. For unfiltered customers, there are separate fixed charges for 20mm, 25mm, 30mm, 32mm, 40mm, 50mm, 80mm, 100mm, 150mm and 200mm meter connections, which proportionately increase with the meter size. We only present the fixed charges for 20mm connections in this table. The fixed availability charges for other meter sizes are presented in our Draft Determination in Table 5.1.
b. Percentage increases may differ due to rounding.

Source: IPART calculations.

Chapter 10

Impacts of our draft decisions

10

Summary of the impacts of our draft decisions

Customer bills would increase by around 9.8% in the first year including inflation

Over the 2025 determination period, customer bills would increase by around 37.8% from 2024-25 to 2027-28. This includes inflation from 2024-25 to 2025-26.

Bulk water charges from WaterNSW to Sydney Water account for approx. 7.7% of Sydney Water's total costs

Under our draft decisions, WaterNSW's costs for its Greater Sydney business would be around 7.7% of Sydney Water's notional revenue requirement, which IPART set in May 2025 as part of our Draft Report on Sydney Water's prices.

This translates to the typical residential Sydney Water customer paying $103 for the WaterNSW component in 2025-26 (including inflation), as a result of our draft decisions on the Greater Sydney business. This is a small increase from 2024-25, where the same customer would have paid $94 for the WaterNSW component. By 2027-28, the average residential customer would pay $128 for the WaterNSW component. This is a $34 increase from what the same customer would have paid in 2024-25 (i.e. $94).

Our draft prices are consistent with WaterNSW's Greater Sydney operations maintaining its financial sustainability over the 2025 determination period

We have completed both the benchmark and actual financeability test, where we used 5.5% as the cost of debt for the actual financeability test. We found that WaterNSW's Greater Sydney operations is likely to be financeable over the next 3 years under our draft decisions. The detailed financeability assessment is also available in Appendix B.

We have considered the implications of our draft pricing decisions on other matters

As required by section 15 of the IPART Act (see Appendix A), we have also considered the impact of our proposed prices on WaterNSW's service standards, the NSW Government's Consolidated Fund, general inflation and the environment.

10.1 Impacts on WaterNSW's Greater Sydney bulk water customers

Table 10.1 shows that indicative bulk water customer bills would increase by around 9.8% (including inflation) for all customers between 2024-25 and 2025-26. Over the 3-year determination period, bills would increase by 37.8% (or 11.3% annually on average) for all customers, which includes inflation from 2024-25 to 2025-26.

Table 10.1 Bill impacts of draft prices using 2024-25 volumes

	2024-25 ($2024-25)	2025-26 ($2025-26)	2026-27 ($2025-26)	2027-28 ($2025-26)	% change 2024-25 to 2025-26[a]	% change 2024-25 to 2027-28[a]
Sydney Water	225,206,862	247,302,666	281,139,023	310,381,178	9.8%	37.8%
Wingecarribee Shire	1,436,959	1,577,728	1,793,808	1,980,577	9.8%	37.8%
Shoalhaven City	27,050	29,700	33,768	37,284	9.8%	37.8%
Goulburn-Mulwaree	28,289	31,060	35,314	38,991	9.8%	37.8%
Raw water customers[a]	602	661	752	830	9.8%	37.8%
Unfiltered water customers[b]	3,780	4,150	4,718	5,209	9.8%	37.8%

a. The bills are based on average sales volumes.
b. The bills are based on average sales volumes and a 20mm meter connection.
Notes: Totals may not add due to rounding and bills have been calculated using constant (2024-25) demand volumes.
Source: IPART analysis

Under our draft decisions, WaterNSW's costs for its Greater Sydney business would be around 7.7% of Sydney Water's notional revenue requirement, which IPART set in May 2025 as part of our Draft Report on Sydney Water's prices.

Our draft prices for WaterNSW's bulk water supply to Sydney Water would increase the indicative bills of Sydney Water's customers (i.e. end-use customers).

This translates to the following for Sydney Water's customers, as also shown in Table 10.2:

- The typical residential Sydney Water customer would pay $103 for the WaterNSW component in 2025-26 (including inflation). This is an increase from 2024-25, where the same customer would have paid $94 for the WaterNSW portion. By 2027-28, the typical residential customer would pay $128 for the WaterNSW component. This is a $34 increase from what the same customer would have paid in 2024-25 (i.e. $94).
- The typical non-residential Sydney Water customer would pay $2,784 for the WaterNSW component in 2025-26 (including inflation). This is an increase from 2024-25, where the same customer would have paid $2,442 for the WaterNSW portion. By 2027-28, the typical non-residential customer would pay $3,492 for the WaterNSW component. This is a $1,050 increase from what the same customer would have paid in 2024-25 (i.e. $2,442).

Table 10.2 Impact of bulk water costs on a typical Sydney Water customer bill under our draft decisions (non-drought demand and pricing scenario)

	2024-25 ($2024-25)	2025-26 ($2025-26)	2026-27 ($2025-26)	2027-28 ($2025-26)	% change 2024-25 to 2025-26[a]	% change 2024-25 to 2027-28[a]
Residential: 20mm meter and 200kL pa						
Water and sewerage bill SWC customer ($)	1,220	1,337	1,416	1,470	9.6%	20.5%
WaterNSW component of the total bill ($)	94	103	117	128	10.3%	36.8%
WaterNSW component of the total bill (%)	7.7%	7.7%	8.2%	8.7%		
Industrial - Medium (40mm meter, 5,800kL pa)						
Water and sewerage bill SWC customer ($)	23,530	26,251	27,685	28,414	11.6%	20.8%
WaterNSW component of the total bill ($)	2,442	2,784	3,175	3,492	14.0%	43.0%
WaterNSW component of the total bill (%)	10.4%	10.6%	11.5%	12.3%		

Notes: Totals may not add due to rounding.

Source: IPART analysis

Seek Comment

4. What are your views on the impact of our draft maximum prices for Sydney Water, councils, unfiltered water customers and raw water customers?

10.2 WaterNSW's June 2025 alternative revenue request

WaterNSW set out an alternative revenue request in June. WaterNSW argued that this alternative approach would support the ongoing viability of WaterNSW, including minimising longer term price impacts for customers.

In September 2024, WaterNSW proposed real price increases of 14% per year for 5 years for Sydney Water, 13% per year for 5 years for its council customers and 14.7% per year for 5 years for its raw and unfiltered water customers.

In June 2025, it then set out an alternative revenue request, which would be a three-year price path of 14% (plus CPI) for each year or a 30% (plus CPI) increase in 2025-26, then CPI only increases in 2026-27 and 2027-28. These increases would be the same for all customers.

10.3 Impacts on financial sustainability

Our analysis indicates that WaterNSW's Greater Sydney operations would likely be financeable over the next 3 years under our proposed prices. We estimate that our maximum prices will result in an increase in WaterNSW's revenues compared to the current determination period. We consider that the revenue WaterNSW will derive from our maximum prices over the determination period should be sufficient to allow WaterNSW to meet its obligations, including its liabilities, provided WaterNSW works within the envelope of revenue we have allowed.

We found that under both the benchmark and actual tests, over the proposed 3-year determination period[a]:

- The real interest coverage ratio (RICR) results show that the Greater Sydney business would likely have sufficient headroom to meet its interest obligations. Under the benchmark test, it could meet its obligation more than 3 times over and more than twice over under the actual test (2.1x to 2.6x).
- When considered together with the Rural Valleys operations, the RICR under the actual test drops slightly to 2.0x to 2.3x. However, WaterNSW would still likely have headroom to meet its interest obligations under our draft decisions for the Greater Sydney business.
- The funds from operation (FFO) over debt results show that WaterNSW's Greater Sydney operations is unlikely to face financeability issues over the determination period. Under the actual test, this ratio is below target in the first year, then exceeds the target in the second and third years (5.7% to 8.4%). This is also the case under the benchmark test that focuses on the Greater Sydney business only.
- The FFO over debt results under the actual test are lower when considered together with WaterNSW's Rural Valleys operations. The ratio is below target in the first year and is at the lower bound of the target of >6.0% in the second year. The ratio however improves to 6.9% in the third year. However, these results should be contextualised with WaterNSW's relatively long-lived assets. which means the initial investment in assets is recovered over a relatively long period of time through the depreciation allowance.

For more information, please refer to Appendix B.

[a] The real cost of debt for the benchmark test is 2.8% and the nominal cost of debt for the actual test is 5.5%.

10.4 Impacts on service standards

WaterNSW is licensed under the *Water NSW Act 2014* (the WaterNSW Act). The WaterNSW Act requires WaterNSW to hold an operating licence that is issued by the Minister and audited annually by IPART. This licence contains a number of standards that WaterNSW must meet, or risk facing penalties associated with a breach of licence conditions. WaterNSW is also required to establish arrangements with Sydney Water under the WaterNSW Act, which include the standard of quality of the water supplied, the continuity of water supply and the maintenance of adequate reserves of water by WaterNSW. These arrangements are included in a Raw Water Supply Agreement (RWSA) with Sydney Water.[b]

WaterNSW's operating licence requires WaterNSW to conduct its activities in a manner that is efficient, resilient, reliable, sustainable and equitable. Where we consider changes to WaterNSW's operating licence may be necessary, we consult with stakeholders and consider cost impacts through a detailed cost-benefit analysis before recommending major changes to licence conditions.

We have reviewed WaterNSW's proposed expenditures including having our independent expert Aither assess the efficiency of the proposed expenditures. We also considered submissions and views expressed at our public hearing and any information provided by other regulators. Our draft decisions provide an efficient level of expenditure for the 2025 determination period, which facilitates WaterNSW continuing to meet its service standards. We do not approve individual projects or expenditures. IPART determines a total amount of forecast operating and capital costs that provides WaterNSW an efficient envelope of revenue to operate its business over the next 3 years. We expect WaterNSW to manage its business to deliver on its customer services and outcomes at the lowest sustainable cost.

However, we note that WaterNSW proposed additional expenditures to enable it to meet its operating licence obligations. These proposed costs were considered as part of the review by our independent expert consultant, Aither. We note that Aither supports an increase in WaterNSW's opex to meet new regulatory requirements, where system yield calculations should consider climate change factors. The increase in costs to comply with this new requirement has been estimated by WaterNSW based on 2 additional staff at 0.8 FTE and the cost to access additional data to undertake the modelling. We have accepted Aither's recommendation for this step change of $1.1 million. WaterNSW also proposed $0.02 million for costs relating to new operating licence conditions. We have accepted Aither's recommendation that this does not warrant a step change and would be better managed under WaterNSW's base level of opex. These are discussed further in Chapter 4.

[b] The agreement covers raw water quality management as well as flow measurement, information management, operational changes, system configuration, strategic planning and maintenance planning.

10.5 Impact on the Consolidated Fund

Under section 16 of the IPART Act, IPART is required to report on the likely impact to 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 be reduced. The extent of this reduction 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.

10.6 Implications for general inflation

Under section 15 of the IPART Act, we are required to consider the effect of our determinations on general price inflation.

The Australian Bureau of Statistics (ABS) collects data on capital city prices of various items of household expenditure, including 'water and sewerage'. The most recent update occurred in February 2025.

The weighting given to water and sewerage in the CPI for Sydney is 0.59[c], meaning that a 1% change in the price of water and sewerage services in Sydney would result in a 0.0059% change in the CPI for Sydney, which would not be large.

Further, the water and sewerage measure for the Sydney CPI contributes 22.55%[d] to the weighted measure given to water and sewerage in the CPI for the 8 capital cities, which is 0.87[e]. This means that a 1% change in the price of water and sewerage services in Sydney would result in around a 0.0020% change in the CPI for the 8 capital cities, which is small.

Further, considering that the cost of bulk water from WaterNSW to Sydney Water is about 7.7% of Sydney Water's NRR, the impact of WaterNSW's services on general inflation would be negligible.

10.7 Implications for the environment

Under section 15 of the IPART Act, we are required to have regard to the need to maintain ecologically sustainable development by taking account of all feasible options to protect the environment. For example, WaterNSW under its Operating Licence is required to undertake environment and climate reporting, catchment management and water quality monitoring.[102]

Our draft decisions provide WaterNSW the efficient costs to meet its environmental obligations.

[c] ABS Consumer Price Index, Weighting Pattern, 2025 – Table 2 (February 2025 release).
[d] ABS Consumer Price Index, Weighting Pattern, 2025 – Table 3 (February 2025 release).
[e] ABS Consumer Price Index, Weighting Pattern, 2025 – Table 2 (February 2025 release).

For example, we have accepted Aither's recommendation to incorporate additional costs for the Warragamba Dam resilience project. Further information about our draft decisions for efficient expenditure is outlined in Chapters 4-5.

Chapter 11

Performance and accountability

11

Summary of our draft decisions on performance and accountability

We accept WaterNSW's proposed performance outcomes and objectives, but propose some amendments to measures and targets

Our draft decision is to accept the performance outcomes and objectives proposed by WaterNSW, but propose some amendments to make measures and targets more relevant to WaterNSW's operations in Greater Sydney.

We have also asked WaterNSW to set more clearly defined targets for some of its proposed performance measures for better assess ability as well as the additional measures included in our draft decisions.

We accept WaterNSW's proposal not to opt in to financial incentive schemes for the 2025 determination

Our draft decision is to accept WaterNSW's proposal not to opt in to financial incentive schemes for the 2025 determination period, and accept WaterNSW's decision to reassess their position for the 2030 determination.

11.1 Outcomes and performance measures

Under our water regulation framework, we expect businesses to develop performance outcomes related to customer, 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.

Pursuant to section 15(1)(b) of the IPART Act, we consider these would provide a reputational incentive for WaterNSW to maintain a high standard of service, which, by extension, would help to protect consumers from the abuses of monopoly powers.

In its September 2024 proposal, WaterNSW developed 6 customer outcomes. Under each of these outcomes it proposed up to 4 performance metrics, as shown in Table 11.1 below. WaterNSW's proposal noted that these outcomes apply across its Rural Valleys and Greater Sydney determinations, and that performance measures may differ.[103]

WaterNSW intends to report on progress through a scorecard, based on the preferences of participants of its Water Working Groups and Customer Advisory Groups.

Table 11.1 Summary of WaterNSW's proposed outcomes and performance measures

Performance outcome	Performance measure	Performance target and Trend
Support customer affordability	Achieve efficiency targets proposed by WaterNSW	Target: 1% compounding operating cost savings per annum Trend: **Improvement**
Secure and reliable water delivery	All affected customers are notified at least 7 days before commencement of the interruption	Target: 100% of planned service interruptions (OL) Trend: **Maintain**
	All affected 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 (OL) Trend: **Maintain**
	Notify customers before rectification time finishes, if works will be longer	Target: **TBC** - WaterNSW has not yet proposed a target[a]
	Meet its legislative obligations for cyber protection of data and critical infrastructure annually	Target: **TBC** - WaterNSW has not yet proposed a target
Openness and transparency	Survey level of satisfaction with WaterNSW's financial reporting & its openness/transparency regarding charges/expenditure	Target: **TBC** - WaterNSW has not yet proposed a target
Sustainable water and land management.	Report of progress for implementing targets (to be set) towards the 2025-2030 WaterNSW land management plan, climate adoption plan and water utilisation	Target: **TBC** - WaterNSW has not yet proposed a target
Access to data and information	Increase in subscriptions to WaterInsights (portal and app)	Target: 10% increase in subscriptions from 2024 baseline by 2030 Trend: **Improvement**
	Survey responses indicating suitable opportunities for engagement	Target: **TBC** - WaterNSW has not yet proposed a target
	Number of meaningful engagements between WaterNSW achieved	Target: **TBC** - WaterNSW has not yet proposed a target
Good customer experiences	Notifying persons registered for advanced notifications in accordance with the early warning system	Target:100% of registered persons notified (OL) Trend: **Maintain**
	Increase in traffic, subscriptions and downloads from Customer Portal	Target: **TBC** - WaterNSW has not yet proposed a target
	Notifying customers of data breach of their personal information	Target: Notify all affected customers within 72 hours Trend: **Improvement**
	Assessment of Key Performance Indicators (KPIs) in annual Voice of Customer Insight Report: • Easy to do business • Trustworthy • Provides valuable service • Deliver water, when and where it matters	Achieve within Target Zone for each KPI Trend: **Maintain**

a. WaterNSW's Operating Licence includes the following performance target: For 100% of unplanned service interruptions where WaterNSW is unable to meet the expected rectification time, all affected customers are notified of the revised expected rectification time before expiration of the original expected rectification time.
Note: Measures that are performance standards on WaterNSW's Operating Licence are represented in the table with an (OL) marker.

WaterNSW also included several performance measures that appear relevant to its Rural Valley (RV) operations. These are shown in Table 11.2, and discussed in section 11.1

Table 11.2 Rural Valley specific performance measures proposed in WaterNSW's pricing proposal (without trends)

Outcome	Performance measure	Performance target
Provide secure and reliable water delivery	Meet the target to release 99% of customers' water orders within one day of the scheduled day of release	Target: Release 99% of orders within one day of the scheduled day of release (OL)
	Meet the target to reschedule 100% of water orders in consultation with an affected customer within one day	Target: Reschedule 100% of water orders within one day
	Report operational water losses by valley (in both volumes and percentage)	Target: No more than 3% operational water losses (OL)
	Service interruption target is met with 95% of affected rural valley customers notified no less than 7 days before WaterNSW ceases to, or becomes unable to, release water	Target: 95% of affected customers notified no less than 7 days before WaterNSW ceases to, or becomes unable to, release water (OL)
	Avoid 100% of water quality incidents (non-compliance with our water quality management system) for all raw water supplied for the final end use as drinking water	Target: Avoid 100% of water quality incidents (OL)
	Report on the progress against delivery of the maintenance plan – a simple progress metric/traffic light, by valley	Target: **TBC** - WaterNSW has not yet proposed a target
	Implement actions according to the Drought Contingency Plans for each valley to conserve water if in drought	Target: **TBC** - WaterNSW has not yet proposed a target
	WaterNSW to develop a website page with a traffic light dashboard to show that these targets have been met, met in part (%), or not met	Target: **TBC** - WaterNSW has not yet proposed a target
Provide good customer experiences	Approve or reject applications for temporary trades within the State within 5 business days of receipt of application	Target: Approve or reject ≥90% of complying trade applicants
	Approve or reject applications for interstate temporary trades (except to South Australia) within 10 business days of receipt of application	Target: Approve or reject ≥90% of complying trade applicants
	Approve or reject applications for interstate temporary trades to South Australia within 20 business days of receipt of application	Target: Approve or reject ≥90% of complying trade applicants
	Contact customers who place non-compliant trade applications to rectify application within 5 business days	Target: Contact ≥95% of applicants

In this Draft Report, we focus on the measures relevant to Greater Sydney.

Our draft decision is:

26. To accept WaterNSW's proposed performance outcomes, measures and targets as they relate to Greater Sydney, with some modifications as shown in Table 11.3.

11.1.1 WaterNSW's performance outcomes were developed through community engagement

It is important that a business' performance outcomes and measures are developed through robust customer consultation to allow customer values and priorities to be reflected in proposed indicators. 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 consulted with customers to develop its performance outcomes, and sought feedback on the measures that would help customers understand what they pay for. We found that WaterNSW's proposed performance outcomes were backed by community preferences, however in the future performance measures and targets should be more influenced by customer and community engagement for the reasons set out below.

11.1.2 Performance measures should be specific to Greater Sydney and better tracked with targets.

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 measures did not clearly distinguish between its Rural Valleys and Greater Sydney determinations, and WaterNSW has not proposed specific targets for many of its proposed performance measures. Further, we found several of WaterNSW's proposed performance targets were already requirements under its Operating Licence, and many were not directly driven by customer priorities. WaterNSW's operating licence requires WaterNSW to conduct its activities in a manner that is efficient, resilient, reliable, sustainable and equitable. Where we consider changes to WaterNSW's operating licence may be necessary we consult with stakeholders and consider cost impacts through a detailed cost-benefit analysis before recommending major changes to licence conditions.

Expenditure has also not been linked to outcomes. WaterNSW asked Water Working Group (WWG) participants to provide feedback for certain investment proposal, however it is not clear how this expenditure is linked to achieving these outcomes. Additionally, survey respondents were not presented with potential customer bill impacts when determining preferred service levels and considering investment proposals.

In some cases, we found that WaterNSW's performance measures referred to land management plans that have yet to be released, provided insufficient information on WaterNSW's proposed performance, and do not clearly support the stated performance outcomes. Therefore, we consider there is merit in WaterNSW including some additional information or metrics, and transferring some performance measures to other performance outcomes to provide more transparency around its performance progress.

The following sections outline our assessment of WaterNSW's proposed performance outcomes, measures and targets. We identify areas where its performance reporting could be improved, while also acknowledging that achieving quantitative targets in 3 years compared with 5 years can be more challenging. We ask that when WaterNSW provides quantitative targets for its measures, it does so with the ability to achieve them in this 3-year determination.

Maintain downward pressure on costs to support customer affordability

WaterNSW intends to report on its performance against IPART-determined regulatory outcomes for operating and capital expenditure and include information for customers in hardship, to support achievement of this outcome. It proposed one measure: report on its performance against its proposed efficiency targets (i.e. 1% compounding operating cost savings per annum).

We have amended the efficiency target to 0.9% compounding operating cost savings per annum.

Provide secure and reliable water delivery

WaterNSW proposed several performance measures for this outcome, mainly focussed on notifying customers when there are planned and unplanned interruptions to water supply. Since WaterNSW is already required to meet these notification requirements for service interruptions under its Operating Licence[104], we do not consider these measures to be delivering any *additional* benefit to customers.

WaterNSW also proposed a measure around meeting its legislative obligations for cyber protection of data. However, it did not propose a specific target for this performance measure.

While WaterNSW did propose performance measures around releasing water and water conservation, these appear to relate to its Rural Valleys operations. For example, the water conservation measure involves WaterNSW implementing actions according the "Drought Contingency Plans for each valley". There is no specific target for this water conservation measure.

We ask that WaterNSW, in response to this Draft Report, consider whether there may be a performance target that measures its performance in water conservation for its Greater Sydney operations.

Be open and transparent (about customer charges and WaterNSW expenditure)

WaterNSW intends to provide transparency about its expenditure by reporting on its financial performance annually, itemising bills and providing clear information on pass-through charges.

WaterNSW proposed one measure for this outcome: survey Customer Advisory Group members and their organisation members annually to determine their satisfaction levels of financial reporting and whether they perceive WaterNSW has been open and transparent regarding customer charges and expenditure. However, it did not propose a specific satisfaction target for this measure.

In its response to our Draft Report, we ask that WaterNSW develop a target for consideration in our Final Report.

Drive sustainable water and land management

WaterNSW's proposal noted that it is in the process of completing an assessment of its managed lands, which was expected to be completed by early 2025. However, we have not received any update on the progress of this assessment. Following the completion of its assessment of managed lands, we understand that WaterNSW proposed to develop a land management program, which will set baseline data and appropriate targets year on year for delivery from July 2025.

WaterNSW proposed to report against a 'traffic light' dashboard as a metric to show if the program targets have been met (green), met in part (amber, with the percentage completed listed), or not met (red).

While we consider WaterNSW's proposed approach appropriate, we ask that WaterNSW provide an update on its land management plan and the performance targets for this outcome in its response to our Draft Report.

Customer and community access to data and information

WaterNSW proposed the performance measure of a specific percentage increase in subscriptions to its WaterInsights portal and app. It proposed increasing subscriptions in step change increments, with a 5% increase from the baseline (2024) numbers by year 3 and a 10% increase by year 5. We find this proposed measure appropriate as it provides a clear target for increasing customer and community access to WaterNSW's data and information and amend the target to a 5% increase from the baseline, in line with this 3-year determination.

WaterNSW also proposed 2 measures to assess whether its customers and the community had been provided with suitable opportunities for engagement with WaterNSW. However it did not propose specific and measurable performance targets for either measure (relating to survey results and the number of meaningful engagements). These measures relate to activities that support the target of increased subscriptions to WaterInsights, rather than directly measuring access to data and information. As such, these measures may be better used to assess providing good customer experiences.

In response to our Draft Report, we ask that WaterNSW develop targets for these 2 measures for consideration in our Final Report, and we may consider moving these measures to the outcome below.

Provide good customer experiences

WaterNSW proposed using increased subscriptions, traffic and downloads through Customer Portal as a measure for this outcome, however we have not been provided with specific metrics WaterNSW proposes to meet. This measure was developed following consultation with the CAG, which recommended addressing Customer Portal's usability[105]. As WaterNSW has noted investments in improving Customer Portal, this measure seems appropriate to address the CAG recommendation and was endorsed by the WWG.[106] In its response to our Draft Report, we ask WaterNSW to provide us with performance targets for our Final Report.

WaterNSW also proposed measures that were either already required under its Operating Licence[107] or regulatory requirements, or it was already participating in, including:

- notifying registered persons for advanced notifications in accordance with early warning systems
- notifying all customers of data breaches with 72-hours
- achieving within acceptable targets in the annual Voice of Customer Insights Report.

Overall, these measures do not appear to have been developed through community engagement and do not improve upon on WaterNSW's current performance. However, a 72-hour timeframe for notifying all customers of data breaches provides a stricter reporting deadline compared with the OAIC guidance of "as soon as possible."[108]

We consider there is merit in including two measures from the access to data and information outcome as measures for this outcome. Increasing its "number of meaningful engagements achieved" allows WaterNSW to provide customers and community with information on more than WaterInsights subscriptions (including Customer Portal and where to find further information on customer charges and WaterNSW expenditure). "Survey responses indicating suitable opportunities for engagement" can measure the success of WaterNSW increased engagement. For our final report, we will consider adding measures from the above performance outcome as measures to assess improvement in this outcome.

Draft amended performance outcomes, measures and targets for WaterNSW

Table 11.3 outlines our draft modifications to performance outcomes, measures and targets.

Table 11.3 Draft amended performance outcomes, measures and targets for WaterNSW

Performance outcome	Performance measure	Performance target and Trend
Support customer affordability	Achieve efficiency targets proposed by WaterNSW	**Draft amended target:** 0.9% compounding operating cost savings per annum
Access to data and information	Increase in subscriptions to WaterInsights (portal and app)	**Draft amended target:** 5% increase in subscriptions from 2024 baseline by 2027-28 Trend: **Improved**
Good customer experiences	**Draft amendment:** Number of meaningful engagements between WaterNSW achieved **(moved from Access to data and information)**	Target: **TBC** - WaterNSW has not yet proposed a target
	Draft amendment: Survey responses indicate suitable opportunities for engagement **(moved from Access to data and information)**	Target: **TBC** - WaterNSW has not yet proposed a target

Seek Comment

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

11.2 Financial incentive schemes

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 (opex), capital expenditure (capex), 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.

In its September 2024 proposal, WaterNSW did not proposed to include any of the financial incentive schemes for the upcoming determination period as it does not consider that they will deliver greater value for money for its customers at this time. WaterNSW stated that it will reassess whether to opt in to these schemes at the subsequent determination.[109]

11.3 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.

11.3.1 Monitoring compliance with pricing determinations

IPART has an ongoing role in monitoring the performance of certain specified businesses for the purposes of establishing and reporting to the Minister on the level of compliance by the business with an IPART pricing determination.[110] This ongoing role provides another layer of monitoring and accountability for WaterNSW to comply with its pricing determination. We collect annual information returns from the businesses which includes the prices they are charging.

11.3.2 Monitoring outcome performance

WaterNSW is expected to 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 intends to report on progress through a scorecard, based on the preferences of participants of its WWG and CAG. Additionally, participants requested that:

- the collating of information should not create an additional cost burden on WaterNSW
- WaterNSW should notes the exceptions in its reporting, i.e. where construction milestones have not been achieved or where a negative financial event has occurred
- WaterNSW should clearly identify where reporting will be posted, and its website should be the starting point
- reporting should be in an easy to understand format (i.e. easy to navigate, simple, plain English) and provided through multiple channels, e.g. to CAGs, via newsletters, website
- the information should be in put in a simple email/newsletter message to all customers and stakeholders
- the information should be put in a simple format dashboard to accommodate customers with poor internet connection
- WaterNSW should report on significant issues that will affect the 2025-2030 period
- an efficient number of metrics provide customers and community reassurance about progress on the outcomes.[111]

Performance results in an online dashboard

IPART also monitors performance to allow businesses 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 commitment. 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.

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.

11.3.3 Annual licence audits

IPART has a role in auditing WaterNSW's compliance with the requirements of its Operating Licence.[112] 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 to its expectations and continually identify areas for improvement.

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,	In Chapters 4 and 5 we discuss our analysis and draft decisions on WaterNSW's operating and capital expenditure for its Greater Sydney business. We assess proposed economic costs with reference to current and past levels of expenditure, and with careful consideration of the likely customer outcomes and service standards that would be delivered. We consider how costs have and would be incurred to provide water supply services in the Greater Sydney area and discuss our decisions on the levels of expenditure that we consider appropriate to be recovered through WaterNSW's maximum prices for its Greater Sydney business.
b) past, current or future expenditures in relation to the government monopoly service,	In Chapters 4, 5 and 6 we set out our assessment of the costs of WaterNSW's costs to deliver its monopoly services in the Greater Sydney area over the determination period. We assess proposed economic costs with reference to current and past levels of expenditure, and with careful consideration of the likely customer outcomes and service standards that would be delivered. We consider how costs have and would be incurred to provide water supply services in the Greater Sydney area and discuss our draft decisions on the levels of expenditure that we consider appropriate to be recovered through WaterNSW's maximum prices for its Greater Sydney business.
c) charges for other monopoly services provided by the government agency,	In Chapter 9 we set our draft prices for WaterNSW's Greater Sydney operations. There are no other monopoly services (such as ancillary or miscellaneous services) provided by WaterNSW in the Greater Sydney area, aside from water supply services. WaterNSW does provide monopoly services outside Greater Sydney. We considered, but gave no weight to, the charges for those services when deciding upon the maximum prices for WaterNSW's Greater Sydney business.

Section 14A(2)	Report reference
d) economic parameters, such as – • discount rates, or • movements in a general price index (such as the Consumer Price Index), whether past or forecast,	In Chapters 8 and 9 we set out how we set draft prices for WaterNSW's Greater Sydney business to raise revenue and our assessment of costs over the determination period in net present value terms. In Chapter 10 we set out what we expect the impact of the draft prices will have on inflation.
e) a rate of return on the assets of the government agency,	In Chapter 6 we explain our approach to setting the weighted average cost of capital (WACC) which is the benchmark rate of return we use in setting maximum prices. In setting the WACC, we estimate a rate of return that would be earned by a firm operating in a competitive market and facing similar risks to the regulated business. The full calculation of the WACC is provided in Appendix C.
f) a valuation of the assets of the government agency,	In Chapter 6 we discuss our approach towards calculating the regulatory asset base (RAB) for WaterNSW's Greater Sydney business. Our approach considers the need to earn an efficient return on the RAB for WaterNSW's Greater Sydney business (through the WACC) and the annual regulatory depreciation value of that asset base.
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,	In Chapters 4 and 5 we set out WaterNSW's efficient expenditure for its Greater Sydney business that allows it to meet its known regulatory requirements and environmental obligations. In Chapter 10 we discuss the implications of the draft prices for the environment. We consider that our draft decisions will mean WaterNSW's Greater Sydney business can fully recover all efficient costs it incurs in meeting its environmental obligations through prices.
h) the need to promote competition in the supply of the service concerned,	In Chapter 8 we discuss our approach to setting prices which reflect the maximum that WaterNSW's Greater Sydney business would need to charge for its services if it were operating in a competitive environment. We consider that our draft decisions, and the maximum prices, would result in customers only paying what WaterNSW's Greater Sydney business requires to deliver quality water services. Chapter 7 also outlines our draft decisions on risk sharing and price control. In Chapter 6, we discuss our draft decisions on WaterNSW's allowances for tax, regulatory depreciation, return on assets, and other price building blocks, for its Greater Sydney business. Our draft decisions on these building blocks consider what costs a benchmark firm operating in a competitive market environment would incur in providing its services. In Chapter 6 we also explain our approach to setting the WACC. Our framework for setting the WACC is an important component of ensuring that the maximum prices we set for WaterNSW's Greater Sydney business can promote competition.
i) considerations of demand management (including levels of demand) and least cost planning.	In Chapter 8 we set out our draft decisions on forecast water sales and customer numbers for the determination period. A key step in our price setting process is to decide on WaterNSW's forecasts for water sales and customer numbers for its Greater Sydney operations. Our draft decisions on water demand and forecast sales volumes are used in determining WaterNSW's charges for its Greater Sydney business over the 2025 determination period.

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	In Chapters 4 and 5 we discuss our analysis and draft decisions on WaterNSW's operating and capital expenditure for its Greater Sydney business. We assess proposed economic costs with reference to current and past levels of expenditure, and with careful consideration of the likely customer outcomes and service standards that would be delivered. We consider how costs have and would be incurred to provide water services and discuss our decisions on the levels of expenditure that we consider appropriate to be recovered through WaterNSW's maximum prices for its Greater Sydney business.
b) Protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services	We consider our draft decisions would protect consumers from abuses of monopoly power, as they do not allow for recovery greater than the efficient costs WaterNSW's Greater Sydney business requires to deliver its regulated services. This is addressed throughout the report, particularly in Chapters 7, 8, 9 and 10 where we set out our pricing decisions and impacts. In Chapter 6 we set out our approach to calculating the WACC. The WACC is an important component of ensuring that the maximum prices we set for WaterNSW's Greater Sydney business can promote competition and protect customers from the abuse of monopoly power.
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 6 outlines our approach for a market-based rate of return on debt and equity for the indicative notional revenue requirement that would enable a benchmark business to return an efficient level of dividends. We considered carefully the public interest in WaterNSW's Greater Sydney business returning a dividend to Government for the benefit of the people of NSW.
d) Effect on general price inflation over the medium term	In Chapter 10 we assess the impact of our draft decisions on general inflation. While prices and bills for most water users are increasing, we expect the impact on general price inflation is likely to be minimal.
e) Need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers	In Chapters 4 and 5 we discuss our analysis and draft decisions on WaterNSW's efficient level of operating and capital expenditure for its Greater Sydney business. To inform our decisions, we engaged independent experts Aither to provide advice on the efficiency of WaterNSW's expenditure for its Greater Sydney business.

Section 15(1)	Report reference
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 the feasible options available to protect the environment	In Chapters 4 and 5 we set out WaterNSW's efficient expenditure for its Greater Sydney business that allows it to meet its known regulatory requirements and environmental obligations. In Chapter 10 we discuss the implications of the draft prices for the environment. We consider that our draft decisions will mean WaterNSW's Greater Sydney business can fully recover all efficient costs it incurs in meeting its environmental obligations through prices.
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	In Chapter 6 we explain our approach to estimating WaterNSW's Greater Sydney business' return on capital for the indicative notional revenue requirement and our assessment of its financial sustainability is outlined in Chapter 10 and Appendix B.
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 4 and 5 set out our assessment of WaterNSW's costs for its Greater Sydney operations for the determination period. We consider our draft maximum prices are sufficient to allow the WaterNSW Greater Sydney business to enter into contracts with other parties to assist it with the provision of its services, where doing so is efficient.
i) The need to promote competition in the supply of the services concerned	In Chapter 8 we discuss our approach to setting prices which reflect the maximum that WaterNSW would need to charge for its Greater Sydney operations if it were operating in a competitive environment. In Chapter 7 we also considered risk sharing and price control. We consider that our draft decisions, and the maximum prices, would result in customers only paying what WaterNSW's Greater Sydney business requires to deliver quality water services. In Chapter 6, we discuss our draft decisions on WaterNSW's allowances for tax, regulatory depreciation, return on assets, and other price building blocks, for its Greater Sydney business. Our draft decisions on these building blocks consider what costs a benchmark firm operating in a competitive market environment would incur in providing its services. In this Chapter we also explain our approach to setting the WACC. Our framework for setting the WACC is an important component of ensuring that the maximum prices we set for WaterNSW's Greater Sydney business can promote competition.
j) Considerations of demand management (including levels of demand) and least cost planning	In Chapter 8 we set out our draft decisions on forecast water sales and customer numbers for the determination period. A key step in our price setting process is to decide on WaterNSW's forecasts for water sales and customer numbers for the WaterNSW Greater Sydney business. Our draft decisions on water demand and forecast sales volumes are used in determining WaterNSW's charges for its Greater Sydney operations over the 2025 determination period.
k) The social impact of the determinations and recommendations	In Chapter 10 we consider the potential impact of our draft pricing decisions on WaterNSW's Greater Sydney business, its customers and the NSW Government (on behalf of the broader community). Chapter 3 outlines what we heard from stakeholders, and we have considered all feedback received to date in making our draft decisions on WaterNSW's prices for its Greater Sydney operations.
l) Standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise)	In Chapters 4 and 5 we set out our draft decisions on WaterNSW's Greater Sydney business' efficient expenditure that allows it deliver upon its standards of quality, reliability and safety. In Chapter 5 we set out our draft decisions on the Warragamba Dam Resilience Project, the Cataract Dam Safety Upgrade and the Water Infrastructure Renewal program.

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

Financeability assessment

Summary of the financeability assessment for WaterNSW's Greater Sydney operations

WaterNSW's Greater Sydney business would likely be financeable under our draft decisions over the next 3 years

We consider that the Greater Sydney operations would likely be financeable over the 3-year determination period under our draft decisions, provided WaterNSW works within the envelope of revenue we have allowed. We have reached this view after conducting both a benchmark and actual financeability test.

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).[113]

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

IPART has conducted both the benchmark and actual tests on the financeability of WaterNSW's Greater Sydney operations over the next 3-years. We have also considered the financeability of WaterNSW by considering the financeability of the Greater Sydney operations together with the Rural Valleys business.

The difference between the two tests is that to conduct the:[114]

- 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:
  - 5.5% as the cost of debt which WaterNSW described as its current interest rate in its submission to our May 2025 Information Paper.[115]
  - 51% as the gearing ratio based on WaterNSW's 2023-24 financial statements.[116]

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, and
- conducting the test on the actual business would generate a warning that the actual business segment might face a financeability concern over the 3-year determination period.

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

Box B.1 Explanation of IPART's financeability ratios

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 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) over Debt

FFO over 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 over 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/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 as described above in Box B.1, we used the draft decisions that we reached for:

- Efficient expenditure as outlined in Chapters 4-5
- Revenue which is based on our draft prices (Chapter 9) and volumes (Chapter 8).

The analysis that considered both WaterNSW's Greater Sydney and Rural Valleys businesses under the actual financeability test:

- incorporated our final decision to increase most prices for WaterNSW's Rural Valleys business by 5.8% plus inflation in 2025-26
- assumed that the Rural Valleys business's costs and revenue would be held constant in real terms for 2026-27 and 2027-28.

B.2 IPART's financeability assessment

Table B.1 shows the benchmark and actual financeability test results.

Table B.1 Financeability test results based on our draft decisions

	Target ratio	2025-26	2026-27	2027-28
Benchmark financeability test results for WaterNSW's Greater Sydney operations				
Real Interest Coverage Ratio	Higher is better >2.2x	3.1x	3.8x	4.3x
Real FFO/Net Debt	Higher is better >7.0%	5.9%	7.9%	9.4%
Net Debt/RAB	Lower is better <70%	60%	60%	60%
Actual financeability test results for WaterNSW's Greater Sydney operations				
Real Interest Coverage Ratio	Higher is better >1.8x	2.1x	2.3x	2.6x
Real FFO/Net Debt	Higher is better >6.0%	5.7%	7.0%	8.4%
Net Debt/RAB	Lower is better <70%	50%	50%	50%
Actual financeability test results for WaterNSW's Greater Sydney and the Rural Valleys businesses				
Real Interest Coverage Ratio	Higher is better >1.8x	2.0x	2.1x	2.3x
Real FFO/Net Debt	Higher is better >6.0%	5.2%	6.0%	6.9%
Net Debt/RAB	Lower is better <70%	51%	51%	51%

Source: IPART analysis.

B.2.1 Real Interest Coverage Ratio (RICR)

The benchmark RICR for the Greater Sydney business exceeds the target if >2.2x in all three years and gradually improves from 3.1x in the first year to 4.3x in the third year. This means that under our draft decisions, the Greater Sydney business is expected to receive enough free cash flow to pay its real interest more than three times over.

Under the actual test, where 5.5% was used as the cost of debt, the Greater Sydney business is expected to exceed the target of >1.8x over all 3 years. The RICR is 2.1x in the first year which gradually increases to 2.6x by 2027-28. This means that under our draft decisions, the Greater Sydney business is expected to receive enough free cash flow to pay its interest more than twice over under a 5.5% nominal cost of debt assumption.

When considered together with the Rural Valleys business, the RICR under the actual test is 2.0x to 2.3x. These results demonstrate WaterNSW can meet its interest obligations at least twice over under our draft decisions for the Greater Sydney business.

The RICR results indicate that WaterNSW's Greater Sydney operations would likely be financeable over the 3-year determination period, assuming actual expenditure does not exceed the allowances included in IPART's draft NRR.

B.2.2 Real Funds from Operation (FFO) over Debt

Under both the benchmark and actual tests, the FFO over Debt ratio is below target in 2025-26. However, the ratio exceeds the target in 2026-27 and 2027-28 under both tests.

The FFO over debt results under the actual test are lower when considered together with the Rural Valleys business. The ratio is below target in the first year and is at the lower bound of the target of >6.0% in the second year. The ratio however improves to 6.9% in the third year.

WaterNSW's relatively low FFO over debt ratio reflects that WaterNSW has a growing asset base of 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 water transport services supplied by WaterNSW via the Murray River to Broken Hill Pipeline (the Pipeline) and for the 2020 review of WaterNSW's Greater Sydney business.[117] The relatively lower FFO over Debt results in these reviews were attributable to longer-lived assets.

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

Given this context, the FFO over debt results in Table B.1 do not indicate financeability issues.

B.2.3 Net Debt/RAB Gearing Ratio

The Net Debt over RAB Gearing ratio meets the upper target limit of 70% under all 3 scenarios (see Table B.1). 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 results under the actual tests that consider WaterNSW's Greater Sydney business by itself, and where it is considered together with the Rural Valleys business, both meet the target for all 3 years.

Appendix C

Weighted average cost of capital

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 and explains our decision about how to treat annual changes in the WACC over the determination period.

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 indicate 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 Greater Sydney 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	4.1%	2.7%			
Inflation	2.7%	2.7%			
Implied Debt Margin	2.1%	2.3%			
Market Risk premium	6.3%	6.0%			
Debt funding	60%	60%			
Equity funding	40%	40%			
Gamma	0.25	0.25			
Corporate tax rate	30%	30%			
Effective tax rate for equity	30%	30%			
Effective tax rate for debt	30%	30%			
Equity beta	0.70	0.70			
Cost of equity (nominal post-tax)	8.5%	6.9%			
Cost of equity (real-post tax)	5.7%	4.1%			
Cost of debt (nominal pre-tax)	6.2%	5.0%			
Cost of debt (real pre-tax)	3.4%	2.2%			
Nominal Vanilla (post-tax nominal) WACC	7.1%	5.8%	5.8%	6.5%	7.1%
Post-tax real WACC	**4.3%**	**3.0%**	**3.0%**	**3.6%**	**4.3%**
Pre-tax nominal WACC	8.1%	6.6%	6.6%	7.3%	8.1%
Pre-tax real WACC point estimate	5.3%	3.8%	3.8%	4.5%	5.3%

a. Note: 3-year regulatory period. Market observations sampled to end Dec 2024. Transition to trailing average is complete.

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.

C.2.2 Sampling dates for market observations

We sampled market observations to the end of March 2025 in order to maintain consistency with the WACC inputs used for the Hunter Water final report and the Sydney Water draft report.

As bulk water purchase costs from WaterNSW are an input into Sydney Water's pricing decisions, we will keep the WACC approach as consistent as practicable between these two businesses.

For earlier years in the trailing average calculation of the historic cost of debt we sampled to the end of March each year.

We anticipate that the final reports for Sydney Water and WaterNSW will employ a WACC sampling date to the end of March 2025, even though more current market data may be available at the time those reports are finalised. Any decision to maintain March sampling dates would not disadvantage either the regulated businesses or their customers. The trailing average we use for the cost of debt means that the WACC responds to interest rate changes within the regulatory period. Therefore, the exact timing of the initial WACC observations has less impact on water prices over the period.

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 3 years for WaterNSW's Greater Sydney operations.

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.

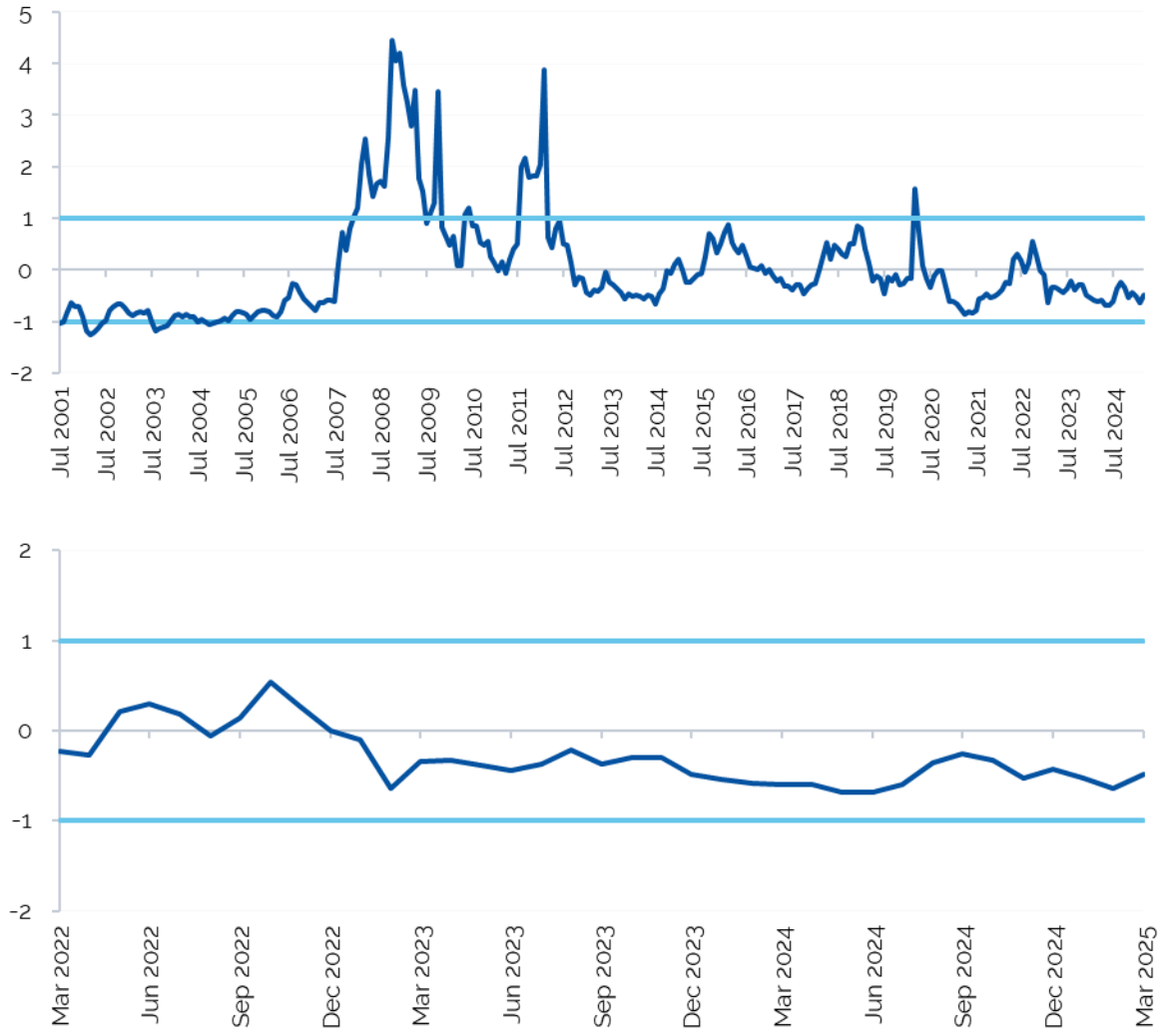
The transition to the trailing average was applied in WaterNSW's 2020 Determinations (excluding the MDB valleys of WaterNSW, which were subject to the ACCC WACC at that time), so we consider that the business is now fully transitioned.

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 Figure C.1 IPART's uncertainty index shows, the uncertainty index for market observations to the end of March 2025 is within one standard deviation of its 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 uncertainty index



Source: Refinitiv and IPART calculations.

Appendix D

Detailed financial tables

D.1 Building blocks and notional revenue requirement

D.1.1 Total notional revenue requirement

Table D.1 Draft decision on total notional revenue requirement for the 2025 determination period ($millions, $2024-25)

	2025–26	2026–27	2027–28	Total
Total NRR proposed by WaterNSW[a]	314.3	322.5	343.0	979.8
IPART decision (building block components)				
Operating allowance	112.2	108.7	109.2	330.1
Return on assets	83.7	85.4	87.5	256.7
Regulatory of assets (depreciation)	61.6	66.9	72.0	200.5
Return on working capital	2.3	2.4	2.3	6.9
Tax allowance	4.9	8.3	8.9	22.1
IPART decision –WaterNSW NRR before adjustments	264.7	271.7	279.9	816.3
Cost of debt true-up	-6.1	0.0	0.0	-6.1
Deferral year	14.6	0.0	0.0	14.6
IPART decision – total WaterNSW NRR	273.2	271.7	279.9	824.8
Difference between the proposed and IPART draft decision total NRR ($)	-41.2	-50.8	-63.1	-155.0
Difference between the proposed and IPART draft decision total NRR (%)	-13.1%	-15.7%	-18.4%	-15.8%

a WaterNSW's proposal includes an inflation forecast of 3% for 2024-25, compared to a forecast of 2% for our draft report.
Note: Figures may not sum due to rounding. In this table, the regulatory depreciation is a mid-year figure (i.e. the RAB roll-forward depreciation figure is discounted by half a year of WACC).
Source: IPART analysis.

D.1.2 Return on assets

Table D.2 Draft decision on return on assets for the 2025 determination periods ($millions, $2024-25)

	2025-26	2026-27	2027-28	Total
WaterNSW proposal	85.8	91.2	100.0	277.1
IPART decision	83.7	85.4	87.5	256.7
Difference ($)	-2.1	-5.8	-12.5	-20.4
Difference (%)	-2.4%	-6.4%	-12.5%	-7.4%

Note: Figures may not sum due to rounding.
Source: IPART analysis.

Table D.3 Draft decision on regulatory asset base roll-forward for the 2020 determination period ($ millions, $nominal)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Opening RAB	1,625.3	1,706.7	1,821.7	1,936.6	2,072.5	2,208.3
Plus: Efficient capital expenditure	116.6	84.5	44.2	66.3	110.0	137.1
Less: Cash capital contributions	0.0	0.0	0.0	0.0	0.0	0.0
Less: Asset disposals	0.4	1.2	0.3	0.1	0.3	21.6
Less: Regulatory depreciation	29.7	34.7	41.5	48.4	54.7	58.0
Plus: Indexation	-5.1	66.4	112.5	118.2	80.8	45.3
Closing RAB	1,706.7	1,821.7	1,936.6	2,072.5	2,208.3	2,311.1
WaterNSW proposal	1,707.1	1,823.6	1,939.9	2,077.2	2,215.0	2,343.9
Difference ($)	-0.4	-1.8	-3.3	-4.7	-6.7	-32.8
Difference (%)	0.0%	-0.1%	-0.2%	-0.2%	-0.3%	-1.4%

Note: Figures may not sum due to rounding.
Source: IPART analysis.

Table D.4 Draft decision on regulatory asset base roll-forward for the 2025 determination period ($ millions, $2024-25)

	2025-26	2026-27	2027-28
Opening RAB	2,311.1	2,361.8	2,399.2
Plus: Efficient capital expenditure	113.9	106.0	150.6
Less: Cash capital contributions	0.0	0.0	0.0
Less: Asset disposals	0.5	0.5	0.5
Less: Regulatory depreciation	62.6	68.1	73.3
Plus: Indexation	0.0	0.0	0.0
Closing RAB	2,361.8	2,399.2	2,476.1
WaterNSW proposal	2,429.6	2,643.3	2,917.0
Difference ($)	-67.7	-244.0	-440.9
Difference (%)	-2.8%	-9.2%	-15.1%

Note: Figures may not sum due to rounding. In this table, the regulatory depreciation is the year-end value, which is higher than the depreciation allowance in the NRR (because for the NRR, the RAB roll-forward depreciation figure is discounted by half a year of WACC).
Source: IPART analysis.

D.1.3 Return of assets (regulatory depreciation allowance)

Table D.5 Draft decision on allowance for return of assets for the 2025 determination period ($millions, $2024-25)

	2025-26	2026-27	2027-28	Total
WaterNSW proposal	76.8	85.2	94.9	256.8
IPART decision	61.6	66.9	72.0	200.5
Difference ($)	-15.2	-18.2	-22.9	-56.3
Difference (%)	-19.8%	-21.4%	-24.1%	-21.9%

Note: Figures may not sum due to rounding.
Source: IPART analysis.

Table D.6 Draft decision on remaining asset lives for existing assets (years)

	Remaining RAB lives of depreciable assets existing on 1 July 2025
All capex up to 1 July 2020 (for legacy combined RAB)	49
Dams	198
Other Storages	0
Pipelines	118
Buildings	38
Major Mechanical & Roads/Minor Civil	28
Meters	13
Plant & machinery	10
ICT systems & Systems/Controls	5
Vehicles & 5 yearly Inspections	4
Major Facilities - Sydney DP project	22
Major Facilities - Illawarra DP project	23

Table D.7 Draft decision on expected lives of new assets (years)

	2025-26	2026-27	2027-28
Dams	200	200	200
Other Storages	80	80	80
Pipelines	120	120	120
Buildings	40	40	40
Major Mechanical & Roads/Minor Civil	30	30	30
Meters	15	15	15
Plant & machinery	12	12	12
ICT systems & Systems/Controls	9	9	9
Vehicles & 5 yearly Inspections	5	5	5
Major Facilities - Sydney DP project	30	30	30
Major Facilities - Illawarra DP project	30	30	30

D.1.4 Working capital allowance

Table D.8 Draft decision for the return on working capital allowance for the 2025 determination period ($millions, $2024-25)

	2025-26	2026-27	2027-28	Total
WaterNSW proposal	2.3	1.9	1.8	6.0
IPART decision	2.3	2.4	2.3	6.9
Difference ($)	-0.1	0.5	0.5	1.0
Difference (%)	-3.0%	27.7%	30.3%	16.5%

Note: Figures may not sum due to rounding.
Source: WaterNSW, Pricing Proposal to IPART, September 2024 and IPART analysis.

D.1.5 Tax allowance

Table D.9 Draft decision on the tax allowance for the 2025 determination period ($millions, $2024-25)

	2025-26	2026-27	2027-28	Total
WaterNSW proposal	9.6	9.8	10.0	29.4
IPART decision	4.9	8.3	8.9	22.1
Difference ($)	-4.7	-1.4	-1.1	-7.3
Difference (%)	-48.9%	-14.7%	-11.3%	-24.7%

Note: Figures may not sum due to rounding.
Source: WaterNSW, Pricing Proposal to IPART, September 2024 and IPART analysis.

D.1.6 Calculation of cost of debt true-up

We have calculated a cost of debt true-up for the 2020 determination period of -$6.1 million. This is $11.8 million lower than WaterNSW's proposal. WaterNSW's proposal included a true-up for the deferral year, which added about $5.7 million to the amount. This is inappropriate because, as explained in the section that follows, we used an updated WACC to calculate the NRR for the deferral year.

In addition, WaterNSW used a higher cost of debt in 2021-22 and 2022-23 than appropriate because it did not account for years 2 and 3 of the adjustment to the trailing average.

WaterNSW proposed to recover $3.1 million of the true-up amount per year over the proposed 5-year determination period, or $3.9 million in the first 3 years.

Table D.10 Draft decision on cost of debt true-up ($ million, $2024-25)

	Total
WaterNSW proposal (total amount)[a]	5.8
Our decision	-6.1
Difference ($)	-11.8
Difference %	-205.7%

a Total value at 1 July 2025. WaterNSW proposed to recover the amount over 5 years in NPV neural terms, or $1.3 million per year.
Note: Figures may not sum due to rounding.
Source: WaterNSW, Pricing Proposal to IPART, September 2024 and IPART analysis.

D.1.7 Calculation of the deferral year revenue

In 2021 we agreed to defer the scheduled 2023-24 water price review for Sydney Water by one year. This meant that the 2023-24 prices in the 2020 Determination remained constant in nominal terms in 2024-25, and therefore, WaterNSW under-recovered its efficient costs over 2024–25.

How we calculated what a deferral year true-up would be

At the beginning of each new determination period, we typically add efficient historical capital expenditure, including from any price review deferral years to the Regulatory Asset Base. We calculate the efficient costs incurred by WaterNSW in 2024-25 by calculating the notional revenue requirement for one year, based on 2024-25 parameters. The true-up amount would be the difference between our calculation of the NRR for 2024-25, and the revenue the business expects to receive in 2024-25, based on actual prices and forecast volumes. In this way, we can calculate the true-up amount as if we had set prices in our usual way for 2024-25.

Applying this calculation method, we arrive at a potential revenue adjustment true-up for the deferral year of $14.6 million (see Table D.11).

Given that we have updated the WACC for 2024-25 there is no cost of debt true-up required for the deferral year.

Table D.11 Draft decision on deferral year adjustment ($million, $2024-25)

	Total
WaterNSW proposal (total amount)[a]	22.2
IPART's draft decision	
NRR for 2024-25	241.2
2024-25 target revenue from prices	226.9
Deferral year true-up (Revenue shortfall with holding costs)	14.6
Difference ($)	-7.7
Difference %	-34.6%

a Total value at 1 July 2025. WaterNSW proposed to recover the amount over 5 years in NPV neural terms, or $5.1 million per year.
Note: Figures may not sum due to rounding.
Source: WaterNSW, Pricing Proposal to IPART, September 2024 and IPART analysis.

Appendix E

Glossary

Term	Definition
ABS	Australian Bureau of Statistics.
AFOC	Assets free of charge refers to assets transferred by developers to utilities for 'no consideration', the value of which is regarded as assessable income, resulting in a tax benefit for developers and a tax liability for utilities, which is then added to the tax asset base.
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.
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.
Bulk water	Water delivered by WaterNSW to irrigators and other licence holders on regulated rivers across NSW.
Capital Efficiency Sharing Scheme (CESS)	An incentive scheme to provide water businesses with a fixed share of any efficiency gains (or losses) associated with capex during a determination period.
Cost pass-through	Tool to allow businesses to pass some costs directly to customers within the determination period, under limited circumstances.
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).
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.
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.
DVAM	Demand volatility adjustment mechanism is a way to manage the revenue risk resulting from actual water demand over the determination period being materially higher or lower than the forecasts used to set prices.
Efficiency Benefit Sharing Scheme (EBSS)	An incentive scheme to provide water businesses with a fixed share of any efficiency gains (or losses) associated with opex during a determination period.
Efficiency factor	Factor applied to a business's forecast expenditure, when appropriate, to adjust it for ongoing productivity improvements.
E-flow	Environmental flow
Expenditure review	IPART's method for reviewing a business's expenditure to allow customers to only pay for efficient costs.
FFO	Funds from operations.
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).
GL	Gigalitre (one billion litres).
Hunter Water	Hunter Water Corporation.
Incentive payments	The amount calculated through the application of an incentive scheme that is used to modify the revenue requirement in a subsequent determination period.
IPART	Independent Pricing and Regulatory Tribunal
IPART Act	The *Independent Pricing and Regulatory Tribunal Act 1992,* which establishes IPART's regulatory role and functions in New South Wales.
kL	Kilolitre (one thousand litres).

Term	Definition
ML	Megalitre (one million litres).
MWP	Metropolitan Water Plan.
Net Present Value (NPV)	The discounted value of a stream of benefits (or costs) taking into account the time value of money.
NRR	Notional Revenue Requirement, the revenue needed by a business to recover the cost of providing their services.
NSW DCCEEW	NSW Department of Climate Change, Energy, the Environment and Water
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.
September 2024 proposal	WaterNSW's pricing proposal submitted to IPART in September 2024.
Outcome Delivery Incentive (ODI)	An incentive scheme to provide financial benefits or penalties for achieving or not achieving customer agreed outcomes respectively.
Price controls	Methodologies used by water businesses and the regulator to set prices charged to customers. Main examples are price caps, and revenue caps.
RAP	Regulators Advisory Panel
Regulatory Asset Base (RAB)	Calculated as the economic value of all assets the business owns. The RAB is used as a 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.
RWSA	Raw Water Supply Agreement.
SDP	Sydney Desalination Plant.
Section 16A direction	Ministerial direction pursuant to section 16A of the IPART Act.
Section 20P directions	Ministerial directions pursuant to section 20P of the SOC Act
SOC Act	*State Owned Corporations Act 1989* (NSW).
Stakeholder submission	Submission prepared by stakeholders in the sector (such as water businesses, advocacy groups, and other regulators) in response to our Draft Report or Discussion Papers
Sydney Water	Sydney Water Corporation.
Target revenue	The revenue WaterNSW 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.
June 2025 submission / alternative revenue request	WaterNSW's submission to IPART in June 2025 to our May Information Paper, which put forward an alternative revenue request.
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.
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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