



IPART Independent
Pricing and Regulatory
Tribunal | NSW

Essential Water prices 2026-2031

Draft Report

March 2026

Water >>

Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders both past and present.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

Tribunal Members

The Tribunal members for this review are:

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

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Invitation for submissions

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

Submissions are due by Tuesday, 28 April 2026

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

You can also send comments by mail to:

Essential Water prices 2025-2030
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.

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The Independent Pricing and Regulatory Tribunal

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Contents

Chapter 1

Report summary	7
1.1 IPART is reviewing Essential Water's prices	8
1.2 We have capped residential prices below full cost recovery for affordability reasons	10
1.3 We have reviewed Essential Water's operating and capital expenditure	12
1.4 We have considered a range of matters in proposing draft maximum prices	14
1.5 We have considered all feedback received from stakeholders	16
1.6 We want to hear your views on our draft decisions	16
1.7 List of draft decisions	17
1.8 Tell us what you think	18

Chapter 2

What we heard from stakeholders	20
2.1 We consulted with stakeholders to inform our draft decisions	21
2.2 What stakeholders told us about Essential Water's proposed prices	21
2.3 We have considered all stakeholder feedback	28
2.4 Our draft decision is to set a determination length of 5 years	29

Chapter 3

Operating expenditure	30
3.1 Essential Water's total efficient operating expenditure is \$246.5 million	32
3.2 Essential Water's proposed core operating expenditure is mostly efficient	32
3.3 Essential Water's bulk water costs	36

Chapter 4

Capital expenditure	37
4.1 Essential Water spending over the last 5 years	39
4.2 Essential Water proposed a large capital expenditure envelope	41
4.3 We have set Essential Water's forecast capital expenditure lower than proposed	41
4.4 We considered the key proposed capital expenditure projects	44

Chapter 5

Other costs and notional revenue requirement	51
5.1 Essential Water's draft notional revenue requirement is \$338.1 million	52
5.2 Bulk water purchases	55
5.3 Return on assets	56
5.4 Return of assets (regulatory depreciation)	57
5.5 Return on working capital	57
5.6 Tax allowance	58
5.7 Revenue adjustments	58

Chapter 6

Price setting	61
6.1 Water Demand	63
6.2 Price structure and price control	65

Chapter 7

Draft prices	75
7.1 Draft decisions on maximum water and wastewater prices	78
7.2 Our draft decision is to continue to not set recycled water prices	81
7.3 Our draft decision is to maintain the current price structures for unmetered properties and unconnected properties	82
7.4 Draft decisions on trade waste and miscellaneous charges	83

Chapter 8

Impacts of draft decisions	87
8.1 Our draft decision caps residential prices for affordability	88
8.2 Affordability is a key concern for the community	92
8.3 Non-residential customers	95
8.4 Impacts on Essential Water's financial sustainability	96

Chapter 9

Performance and accountability	98
9.1 Outcomes and performance measures	99
9.2 Financial incentive schemes	108
9.3 Monitoring and credibility	108

Appendix A

Matters considered by IPART	113
A.1 Matters under section 14A(2) of the IPART Act	114
A.2 Matters under section 15 of the IPART Act	116
A.3 Considerations under section 16 of the IPART Act	118

Appendix B

Water pricing framework grading rubric	119
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Appendix C

Weighted average cost of capital	128
C.1 We use our standard approach to calculate the WACC	129
C.2 Our methodology to calculate WACC parameters	130

Appendix D

Detailed financial tables	133
D.1 Building blocks and notional revenue requirement	134
D.2 Trade waste charges	137
D.3 Miscellaneous charges	138
D.4 Bill impacts	141
D.5 Affordability analysis	145
D.6 Financeability assessment	147

Appendix E

Pricing options	149
E.1 Full cost recovery (excluding bulk water)	150
E.2 5% capped annual price increase for residential customers	151

Appendix F

Pricing proposal assessment	153
F.1 We applied our water regulation framework	154
F.2 Essential Water self-assessed its proposal as Standard	156
F.3 We made a preliminary assessment to inform our approach to the review	157
F.4 We graded Essential Water's proposal as Standard	157
F.5 We reviewed Essential Water's customer engagement	160

Appendix G

Glossary	164
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Chapter 1 >>

Report summary

01

1.1 IPART is reviewing Essential Water's prices

We are reviewing the maximum prices Essential Water can charge households and businesses for water and wastewater services in Broken Hill and surrounding areas. We are proposing that the maximum prices we set will apply until 30 June 2031. This draft report sets out our draft decisions, how and why we reached them and what impact they will have on customers, the Broken Hill community, Essential Water and the NSW Government.

Water and wastewater services are essential services. Our role is to set maximum prices that allow Essential Water to recover the efficient costs of providing safe, reliable services, while also protecting customers from the impacts of monopoly pricing and managing affordability, particularly in an environment of cost-of-living pressures.

The efficient costs Essential Water should incur in delivering water and wastewater services to Broken Hill are increasing. While lower than Essential Water proposed, our draft decisions on its efficient expenditure reflect our view that it will need to invest significantly more on building new, and replacing aging infrastructure over the next 5 years. Key projects include the construction of a new Wastewater Treatment Plant, and the replacement of wastewater pipes at the end of their useful lives.

Affordability of bills to cover those costs was a crucial factor in the draft decisions we have made on the prices customers pay. The draft prices we propose do not recover all Essential Water's costs over the next 5 years – even if it operates efficiently.

We have indicated the NSW Government would need to contribute around \$12.6 million in additional funds over the next 5 years to provide the balance of the revenue Essential Water needs to fund its operations.

Under our draft maximum prices, typical household bills would increase by 4.7% plus inflation in each of the next 5 years

In discussing typical household residential bills, we refer to the combined water and wastewater bill a typical residential household would pay for consuming 250 kilolitres (kL) of water a year. Our draft maximum prices would see typical household bills increase in 2026-27 by 4.7% plus inflation, or 7.8% including inflation. They would then increase by 4.7% plus inflation in each of the next 4 years to 2030-31.

The bill increases we propose under our draft decisions would be significantly lower than the bill increases proposed by Essential Water. There are several reasons for this:

- Our draft decisions on efficient expenditure mean that the costs Essential Water needs to recover are lower than it proposed. This is partially offset by our draft decision on the weighted average cost of capital (WACC) of 3.6%, compared to Essential Water's proposal which used a WACC of 3.1%.
- We have capped residential prices below the level that would allow Essential Water to fully recover these customers' share of efficient costs.
- We have not capped non-residential draft prices, which are set at the level to recover these customers' share of efficient costs.

Under our proposed prices, the increase in a typical household bill would be:

- \$76 (or 4.7%) to \$1,700 in 2026-27 plus inflation, then by 4.7% plus inflation in each subsequent year to 2030-31^a, or equivalently
- \$126 (or 7.8%) to \$1,751 in 2026-27 including estimated inflation, then by 4.7% plus inflation in each subsequent year to 2030-31.

The typical household bill in 2025-26 is \$1,624.

Table 1.1 below compares the typical household bill under our draft prices with those proposed by Essential Water in each year of the 2026 determination period. For reference, we also show the estimated bills if prices were set to recover efficient costs.

Table 1.1 Comparison of typical household bills between IPART's draft decision, Essential Water proposed, and full cost-recovery (\$2025-26)

Scenario	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Full cost recovery of efficient costs	1,624	1,967	2,065	2,170	2,283	2,405
IPART draft decision	1,624	1,700	1,779	1,863	1,950	2,042
Essential Water proposed	1,624	1,877	2,167	2,502	2,888	3,333
<i>Difference</i>		-177	-388	-639	-938	-1,291
<i>Difference (%)</i>		-9.4%	-17.9%	-25.5%	-32.5%	-38.7%

Note: Based on a residential house with water consumption of 250 kL per year.
Source: IPART calculations; Essential: Water Pricing Proposal September 2025.

Non-residential customer bills would increase on average between 2.8% and 10.9% per year plus inflation, depending on customer type and water use. Table 1.2 sets out the impact of bills for the 2 mining operations served by Essential Water.

Table 1.2 Impact of our draft prices on the water and wastewater bills of mining customers (\$'000, \$2025-26)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Perilya Ltd.	6,369	7,882	8,047	8,216	8,393	8,573
<i>% change</i>		23.7%	2.1%	2.1%	2.1%	2.1%
BHM Ltd.	1,241	1,609	1,651	1,694	1,739	1,785
<i>% change</i>		29.7%	2.6%	2.6%	2.7%	2.7%

Note: Based on yearly water consumption for Perilya and BHM of 3,434kL and 512kL respectively.

We discuss impacts on customer bills in more detail in Chapter 8.

^a We note that household bills in 2025-26 are a product of current prices which we set in 2022. For that Determination, we decided to set a price path which increased in each year of the determination period, rather than a single step change like our draft decision here.

Affordability is a key concern for the community

Affordability was the dominant issue raised by customers and stakeholders during consultation. We have considered affordability carefully in reaching our draft decisions, recognising that Broken Hill has lower average incomes and a higher proportion of households experiencing financial vulnerability and increasing hardship than many other parts of NSW.

Using the United Nations' benchmark that water and wastewater bills should not exceed 3% of household disposable income, our analysis shows that:

- under Essential Water's proposed prices, around 49% of households would exceed this threshold
- under full cost recovery prices, around 34% of households would exceed this threshold
- under our draft prices, this proportion is reduced to around 29% of households.

While affordability pressures remain under our draft decisions, we consider this outcome represents a better balance between affordability and cost-recovery than Essential Water's proposal.

1.2 We have capped residential prices below full cost recovery for affordability reasons

We have made a draft decision to set prices for residential customers below the level that would allow Essential Water to fully recover their share of efficient costs excluding bulk water costs associated with the Pipeline (full cost recovery prices).

Our affordability analysis indicates that full cost recovery prices would require average household bill increases of around \$156 per year (or 8.2%) plus inflation, which we do not consider affordable for many residential customers in Broken Hill, particularly those experiencing financial vulnerability.

We focussed our affordability analysis on households experiencing vulnerability, that is, those on government support payments and their proximity to a 3% water stress threshold (discussed in Chapter 8.2.1).^b

To manage these impacts, we have set draft prices so that:

- bill increases for residential customers using 200 kL of water a year have an annual **average** increase in their bills of 5% (plus inflation)
- non-residential customers pay full cost-reflective prices, as they tend to face lower affordability risks and have greater capacity to manage price increases.

This approach reduces the social impacts of price increases while still moving prices closer to cost-reflective levels over time.

^b In this analysis we assume a water use at 200 kL/year, as opposed to the 250 kL/year which is a typical household. This smaller amount reflects a level of water usage which is necessary rather than typical.

We would not typically set maximum prices that do not recover a water business's efficient costs. Setting prices to recover all of its efficient costs of providing water and wastewater services means that Essential Water has the capacity to continue to invest in services, and customers make appropriate choices about how much of the service to use.

In this instance however, we propose to cap residential prices over the next 5 years to promote access to an essential service. This means that we are asking the NSW Government, and through it taxpayers, to make a contribution to top up Essential Water's revenue.

Our draft pricing approach results in a funding shortfall of \$12.6 million

Setting residential prices below full cost recovery would result in a funding shortfall of around \$12.6 million over the 5-year determination period. This is around 7% of Essential Water's efficient costs over that period, excluding bulk water costs from the WaterNSW Wentworth to Broken Hill Pipeline (the Pipeline).

Another potential way that water services could be kept affordable would be through further government financial support directly to households that need it. Under this scenario, prices could be set at levels that recovered Essential Water's efficient costs, and government support could be targeted at particular households.

We are seeking feedback from customers and other stakeholders on options to address this funding gap, including:

- Asking the government to contribute to Essential Water's efficient costs
- A capital grant to reduce Essential Water's regulatory asset base (RAB)
- Targeting the existing subsidy to Essential Water which covers the costs of the WaterNSW Pipeline and redirecting more of that subsidy to provide support to residential customers. This may mean non-residential customers pay some of the costs associated with the Pipeline in their prices.

To manage affordability in the medium term, an option for government may be to identify households that may be experiencing financial hardship and provide direct financial support to pay water bills. This may be a more cost-effective way to achieve desired social outcomes, rather than through capping water charges to all residential customers.

The NSW Government currently reimburses Essential Water for the full costs of bulk water purchases from WaterNSW' Murray to Broken Hill pipeline

Our draft prices are based on the NSW Government continuing to fully fund Essential Water's bulk water costs associated with WaterNSW's Murray River to Broken Hill Pipeline.

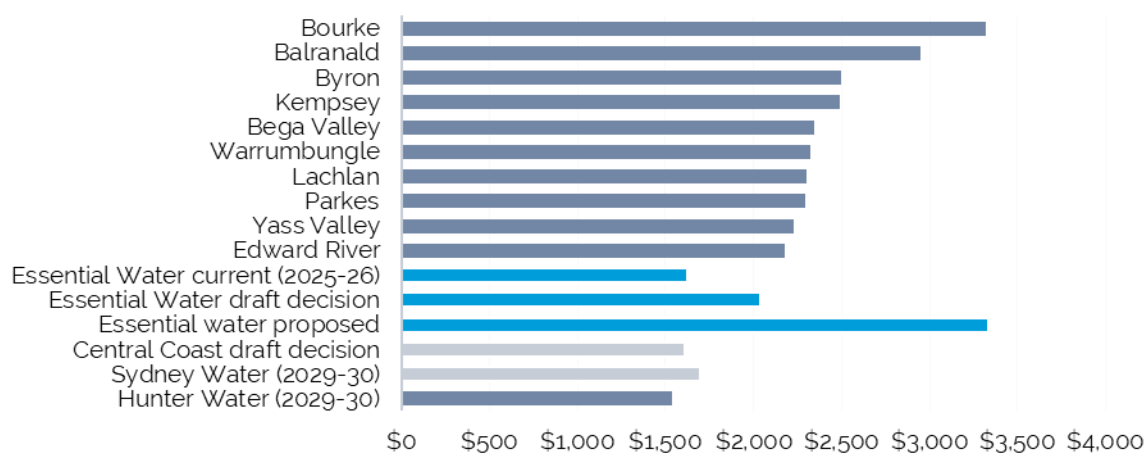
Over the 2026 determination period, these bulk water costs are estimated at around \$148.5 million. The continuation of this subsidy is critical to maintaining affordable water prices in Broken Hill. Without it, customer bills would increase substantially.

We estimate that if these bulk water costs, as well as all other efficient costs, were recovered from Essential Water customers, the typical household bill would be around \$3,800 in 2030-31.

Typical household bills would be higher than most in NSW

Under our proposed draft maximum prices Essential Water's typical household residential bill would be higher than most other local water utilities in NSW.

Figure 1.1 Comparison of Essential Water's typical household residential bill in 2030-31 with a selection of comparable water utilities (\$2025-26)



Note: Bills shown (other than for Sydney Water, Hunter Water, Central Coast and Essential Water) are based on FY2023-24 charges, and assumed to stay constant in real terms. Bills for Sydney Water and Hunter Water are for 2029-30. Bill for Central Coast is based on our draft decision for 2030-31. Bills based on the average residential consumption in each water utility.

Most pensioners receive a pensioner rebate off their water and wastewater bill. However, the maximum rebate available to customers of local water utilities (LWUs) like Essential Water is \$175 a year.^c This rebate has not increased since 1993, over which time inflation has significantly reduced its value. If the pensioner rebate had been increased by inflation rate it would be around \$408 now. In previous reviews we recommended that the NSW Government review the appropriateness of pensioner concessions for water and wastewater bills across the state. The NSW Government is currently reviewing the adequacy of rebates available to pensioners served by LWUs.

1.3 We have reviewed Essential Water's operating and capital expenditure

We engaged engineering experts Stantec to provide advice on Essential Water's efficient operating and capital expenditure. Stantec's advice is that the efficient level of both operating and capital expenditure is lower than proposed by Essential Water.

After considering Stantec's advice, we have set efficient expenditure for the draft report as shown in Table 1.3 below.

^c For comparison, the maximum rebate available in 2025-26 to pensioner households served by Sydney Water and Hunter Water is around \$770 and \$410 a year respectively.

Table 1.3 IPART's draft decision on total efficient expenditure compared to Essential Water's proposed expenditure – 2026-27 to 2030-31 (\$million, \$2025-26)

	Essential Water proposed	IPART draft decision	Difference	Difference (%)
Efficient core operating expenditure	102.2	98.0	-4.2	-4%
Efficient capital expenditure	246.9	171.1	-75.8	-31%

Operating expenditure

Our draft decision is to set Essential Water's total efficient operating expenditure at \$246.5 million over five years, including:

- \$98.0 million in core operating expenditure
- \$148.5 million in bulk water expenditure (fully funded by the NSW Government).

Core operating expenditure is around 4.1% lower than Essential Water proposed, reflecting our assessment of efficient costs, including corporate overheads. We consider the allowed overhead costs to be reasonable and necessary to support the safe and effective operation of the business.

Capital expenditure

Our draft decision is to include \$171.1 million of capital expenditure in calculating Essential Water's notional revenue requirement (NRR) over the determination period.

We have prioritised capital projects that deliver the greatest value to customers and reflect realistic delivery timelines, given affordability constraints. Key projects include:

- the Wills Street Wastewater Treatment Plant, which is necessary to replace ageing assets and meet environmental requirements, and is supported by a \$17.6 million NSW Government grant
- water and wastewater mains renewals to manage asset condition and service reliability.

We have adjusted the timing and scope of some proposed projects to better balance affordability, deliverability and long-term service outcomes.

Balancing affordability, service quality and financial sustainability

Our draft decisions aim to balance affordability for customers, the need to maintain and renew essential infrastructure, and the financial sustainability of Essential Water.

We have sought to minimise bill impacts while ensuring Essential Water can continue to deliver safe, reliable services and meet regulatory and environmental obligations. We recognise that affordability pressures remain significant for many customers, and we are seeking feedback on our draft decisions and the options for addressing the funding gap between affordable prices and full cost recovery.

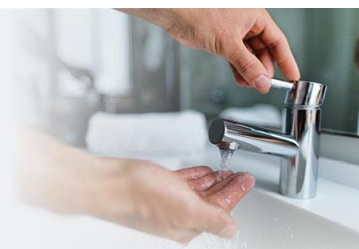
1.4 We have considered a range of matters in proposing draft maximum prices

We have had regard to the considerations in sections 14A(2) and 15(1) of the IPART Act when making our draft decisions on Essential Water's maximum prices. Those considerations include, but are not limited to:

- the social impacts of our prices (including affordability)
- Essential Water's cost of providing water, and wastewater services
- the need to protect Essential Water's customers from abuses of monopoly power
- the need for Essential Water to be more efficient to reduce costs for the benefit of its customers
- the need for ecologically sustainable development
- standards of quality, reliability and safety.

Each of the chapters in this report explain how we considered and carefully balanced these matters in reaching our draft decisions for Essential Water's costs, prices, and service standards. A summary and index of how we considered the matters in section 14A(2) and section 15(1) of the Independent Pricing and Regulatory Tribunal Act 1992 (the 'IPART Act') is set out in Appendix A.

Matters for IPART to consider when setting water prices



What are the costs?



Are customers protected from abuses of monopoly power?



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



What is the effect on general price inflation?



Do the prices promote greater efficiency?



Do the prices promote ecologically sustainable development?



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



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



Do the prices promote competition?



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



What are the social impacts of the prices?



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


1.5 We have considered all feedback received from stakeholders

We heard from a range of stakeholders over our consultation period including individuals, industry organisations and community groups. We received 15 submissions to our Issues Paper and held a Public Hearing attended by 10 stakeholders. Many stakeholders raised issues relating to affordability and the impacts of proposed price increases on cost-of-living for different customers.

We value the feedback that stakeholders have provided, and we have considered all views in reaching the draft decisions set out in this report. Chapter 2 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 or complete our customer survey by 28 April 2026.

 **Have your say**

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

You can get involved by making a submission to our price review. We are seeking feedback by **28 April 2026** on our draft decisions. [Customer survey >](#)

Figure 1.2 shows our review timeline.

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

Figure 1.2 Timeline for our review



1.7 List of draft decisions

1.	To set prices for a 5-year determination period commencing 1 July 2026 and ending 30 June 2031.	29
2.	To include \$98.0 million of efficient operating expenditure in Essential Water's notional revenue requirement for the 2026 determination period, as shown in Table 3.2.	32
3.	To set Essential Water's actual capital expenditure over 2021-22 to 2025-26, as shown in Table 4.1.	39
4.	To set the efficient level of forecast capital expenditure at \$171.1 million for the 2026 determination period, as shown in Table 4.2.	41
5.	To set Essential Water's notional revenue requirement as \$338.1 million over the 2026 determination period.	52
6.	To set Essential Water's bulk water purchase costs as \$148.5 million over the 2026 determination period.	55
7.	To set an allowance of \$55.4 million for the return on assets component of the notional revenue requirement, noting that:	56
	a. The opening RAB for the 2026 determination period is \$204.0 million, and we added \$152.3 million of capital costs (net of depreciation) for the period.	56
	b. We used a real post-tax WACC of 3.6% as the efficient rate of return.	56
8.	To set the return of assets (regulatory depreciation allowance) as \$32.1 million.	57
9.	To set the return on working capital as \$0.8 million over the 2026 determination period.	57
10.	To set the tax allowance as \$0.5 million over the 2026 determination.	58
11.	To make the following revenue adjustments to Essential Water's notional revenue requirement over the 2026 determination period:	58
	a. \$2.8 million for the cost of debt true-up.	58
12.	To make the following adjustments to Essential Water's RAB over the 2026 determination period:	58
	a. \$22.7 million for the tax on assets-free-of-charge true-up.	58
13.	To adopt Essential Water's water demand forecast for the 2026-31 determination period.	63
14.	To maintain Essential Water's ±5% Demand Volatility Adjustment Mechanism (DVAM) materiality threshold for the 2026-31 determination period.	63
15.	To set prices on the basis that the NSW Government will fully subsidise Essential Water's bulk water transportation costs associated with the WaterNSW Pipeline.	65
16.	To continue with the price cap approach to regulation.	65
17.	To continue using current price structures for:	65
	a. setting the water usage charge with reference to long-run marginal cost of water supply	65

b.	setting the wastewater usage charge with reference to the short-run marginal cost of wastewater supply	65
c.	setting fixed service charges on a full cost recovery basis for non-residential customers.	65
18.	To set maximum service charges for residential customers which cap total bill increases for customers using 200 kL a year at an annualised 5% on average (plus inflation).	65
19.	To maintain our current approach for setting the wastewater service price for the mines by aligning the proportion of their total wastewater charges paid alongside use as part of a fixed charge.	65
20.	To set Essential Water's maximum water usage charges as shown in Table 7.1.	77
21.	To set Essential Water's maximum water service charges as shown in Table 7.2 for residential customers and Table 7.3 for non-residential customers.	77
22.	To set Essential Water's maximum usage charge for wastewater as shown in Table 7.5.	77
23.	To set Essential Water's wastewater service charges as shown in:	77
a.	Table 7.6 for residential customers.	77
b.	Table 7.7 for non-residential customers.	77
24.	To continue not setting recycled water prices.	81
25.	To deduct 50% of the revenue received from recycled water sales from Essential Water's notional revenue requirement for regulated services.	81
26.	To maintain the current price structures for unmetered properties but to apply residential and non-residential charges aligning with the type of customer.	82
27.	To maintain the current price structures for unconnected properties.	82
28.	To set Essential Water's trade waste and miscellaneous charges as shown in Appendix D.2 and D.3.	83
29.	To set Essential Water's proposed performance outcomes, measures and targets, as in Table 9.2.	107
30.	To grade Essential Water's pricing proposal as Standard.	157

1.8 Tell us what you think

Seek Comment

1.	Do Essential Water's proposed capital investments, including Wills St WWTP as well as water mains upgrades and sewer mains relining deliver on the most important outcomes for customers in this price period?	49
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2.	Should supplementary water infrastructure such as Stephens Creek and Umberumberka continue to be maintained and funded for use in supplying water to Broken Hill?	50
3.	On an assumption that use continues, should Stephens Creek be used as an 'alternative water source' or an 'emergency water source' for Broken Hill?	50
4.	What do you think of our draft decision to keep water usage prices constant and increase the fixed service charge, in the context of using water to manage lead dust in Broken Hill?	72
5.	Do you prefer a larger step increase in bills in 2026-27 with smaller increases in future years? Or do you prefer a smooth glide path increase in bills where bills would be lower in 2026-27 and higher in 2030-31?	72
6.	Is it feasible to set non-residential prices (including mines) at a level which recovers their share of efficient costs (excluding Pipeline costs), and to cap price increases at a lower level for residential customers?	72
7.	Do you support capping price increases at an annual average of 5% (plus inflation) for residential customers who use 200 kL of water annually?	72
8.	What do you consider is the most appropriate method to fund the gap between full cost recovery prices and IPART draft prices?	74
9.	Are the proposed prices affordable for mining customers in Broken Hill?	96
10.	What would be the impact of the proposed prices on mining customers?	96
11.	What are your views on our draft bill increases of 4.7% plus inflation in each of the next 5 years? Are these affordable?	97
12.	What are your views on our proposed performance outcomes, measures and targets and indicators?	108

Recommendations

1.	We recommend the NSW Government fully fund the \$148.5 million which Essential Water will need to purchase bulk water from WaterNSW, to continue to manage the affordability of Essential Water's bills.	66
2.	That Essential Water publishes, each year on its website, how it has performed against each of its performance measures.	109

Chapter 2 >>

What we heard from stakeholders

02

2.1 We consulted with stakeholders to inform our draft decisions

On 28 October 2025, we published Essential Water's 2026 pricing proposal and an Issues Paper summarising the key aspects of the proposal. This included how Essential Water has engaged with and understood its customers and community, its proposed costs and service levels, customer outcomes, and the affordability of proposed prices.

We invited stakeholders to provide feedback by making a written submission or completing an online survey. On 24 November 2025 we also held an in-person Public Hearing in Broken Hill which allowed the community to provide comments and ask questions directly to Essential Water and to IPART.

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



2.2 What stakeholders told us about Essential Water's proposed prices

We heard from a range of stakeholders over our consultation period, mostly individual stakeholders. We also received submissions from organisations including the Energy & Water Ombudsman NSW (EWON), Foundation Broken Hill Limited (FBHL), and the Justice and Equity Centre (JEC).

Of the 15 submissions we received, 7 were confidential. While we have considered all submissions in developing our draft decisions, this report only quotes those submissions that are not confidential.

Submissions to our Issues Paper, survey and Public Hearing mainly raised concerns related to:

- affordability and price increases, including price charging structures and subsidies and rebates
- the Pipeline and related subsidies
- service reliability and water quality
- lead dust, health concerns and mining.

2.2.1 Affordability and price increases were the main concerns among stakeholders

Throughout submissions to the Issues Paper, survey responses and at the Public Hearing, stakeholders emphasised concerns regarding price increases and affordability.

Stakeholders raised concerns surrounding the need to reduce household expenditure in order to meet the proposed price increases, their already present struggle or inability to pay current bills, and the impact of proposed prices on their household's health, finances and social life.

Majority of survey responses indicated that Essential Water focussing on affordability and the impacts on the cost of living is most important to them about Essential Water's prices.

Stakeholders at the Public Hearing expressed their concerns regarding Essential Water's price increases:

- One stakeholder stated that Broken Hill has an aging population with a large proportion of pensioners, expressing concern for the impact of price increases on water bills.¹
- Another stakeholder stated that "Broken Hill in general is a lower income area than the rest of NSW," commenting that the residents of Broken Hill are "going to be paying pretty close to what Sydney is paying in water bills,"² and that continued water price increases, along with electricity prices and other general price increases, will eventually no longer be tolerable.³

In its submission to our Issues Paper, FBHL raised concerns about the viability of Essential Water's proposed price increases in "one of the most socio-economically disadvantaged communities in NSW",⁴ noting Broken Hill's population, income levels, geographic isolation, employment characteristics, disadvantaged families and retirees on fixed incomes.⁵

Both FBHL and an individual stakeholder suggested that the water price increases may deter workforce attraction and business investment⁶ and make Broken Hill unaffordable causing many young families to move away⁷. This view was shared in a handful of survey responses.

Community groups supported IPART conducting further analysis on affordability⁸ and EWON recommended that "IPART consider the impact on water affordability for different groups of customers, such as tenants and pensioners."⁹

The NSW Chief Health Officer sent a letter to the IPART Chair highlighting equity and affordability issues for Aboriginal households in Broken Hill associated with raising prices.

Further, the JEC support "a smoothed introduction of any bill increases" as this "minimises the impact in early years of the period, at a time when affordability is a critical concern for NSW households."¹⁰

Stakeholders raised concerns regarding price charging structures

Survey respondents mostly disagreed with Essential Water's proposal to recover most of its additional costs through the fixed water service charge rather than water usage charges.

FBHL submitted that fixed charge increases "place unavoidable pressure on customers regardless of water use," causing a disproportionate burden on customers as they "bear the impact of major capital replacement costs."¹¹ Similarly, the JEC considered fixed charge increases have "unreasonable impacts on equity and reduces the scope for households to exercise any control on bill increases."¹² We note that increases in water usage prices may conflict with the use of water to mitigate health impacts associated with lead dust in Broken Hill.

EWON recommended IPART consider affordability impacts for different customer types when determining fixed and variable price increases.¹³ For example, increases to only fixed charges would impact pensioners living alone greater than homes with multiple occupants.¹⁴

The JEC also recommended that "IPART consider changes to water pricing structures for mining entities," as "water usage for mining has a fundamentally different value than that for essential household and business use."¹⁵

Stakeholders called for further subsidies and rebates

At the Public Hearing, an individual stakeholder expressed that "affordability and rebates are probably the biggest concern."¹⁶

Stakeholders had varied views on who should benefit and the mechanism of supports:

- EWON supports "IPART's previous recommendations... to the NSW Government to improve the effectiveness of water rebates," including that "rebates should be targeted to assist those most in need," and at groups which are disproportionately affected by the structure of price increases.¹⁷
- FBHL submitted that major infrastructure replacement requires government support, rather than seeking to recover costs from a "community with limited capacity to pay."¹⁸
- The JEC also suggested that any further subsidies be targeted to those who need it rather than "large industrial, commercial or mining users" as the purpose of Community Service Obligations (CSOs) is to provide access to an essential service rather than business support.¹⁹
- Some stakeholders, through submissions and survey responses, went further and suggested that all major water infrastructure (such as the Wills St wastewater treatment plant (Wills St WWTP) be funded by government with no impact on bills.

EWON noted that pensioners can access a rebate of \$175 each year, but that this does not increase with inflation or actual water bills and is set at a lower rate than other water businesses.²⁰ FBHL and JEC shared similar sentiments concerns and recommendations.²¹

2.2.2 Essential Water advocated for continued Pipeline subsidisation

Submissions to our Issues Paper, survey responses and Public Hearing attendees raised queries regarding the current subsidy arrangement relating to the Murray River to Broken Hill Pipeline. Further explanation provided at the Public Hearing assisted in clarifying the proposal, whereby the full water transportation expense is covered by a subsidy from the NSW Government.

Some Public Hearing attendees suggested that the Pipeline was pushed upon the town by the cotton industry and its lobbyists for the industry's benefit rather than the residents of Broken Hill. They expressed that the view that Pipeline was not wanted by Broken Hill residents, there was a lack of transparency regarding the associated increases in residents' water costs,²² and that ratepayers "shouldn't have to pay for" the "cost or any increased costs of running ... the pipeline," and should rather be borne by the industry.²³

Stakeholders wanted longer-term subsidy commitment for the pipeline

In its submission to our Issues Paper, FBHL noted that NSW Government funding has been extended periodically rather than being provided through a permanent arrangement. FBHL stated that "periodic arrangements create constant uncertainty," and that "It is not reasonable to expose the community to a constant cycle of funding and pricing uncertainty every few years."²⁴ Stakeholders at our Public Hearing also mirrored this sentiment.²⁵

Essential Water stated that its pricing proposal noted "that the NSW Government indicated it was appropriate to assume a continuation of the affordability subsidy," however, "would welcome a longer-term commitment to this subsidy to give a greater level of assurance to" customers and the community.²⁶

2.2.3 Stakeholders expressed opposing views on service reliability and water quality

Stakeholders who made submissions to our Issues Paper and responded to our survey raised concerns about Essential Water's service reliability and water quality.

In response to our Issues Paper, the owner of a local business disputed that the water from the Pipeline is of a higher quality than prior to it, and therefore price increases are unwarranted.²⁷ They also raised concerns that future large projects may result in untreated Pipeline water becoming "less stable" as a result of cycling between sources.²⁸

One survey respondent raised the issue that as Essential Water does not have an operating licence there is inadequate enforcement to ensure that it is delivering high quality water. Further, a handful of survey responses and confidential submissions highlighted water quality issues and concerns, including odours from facilities, water taste and colour.

The water quality issue was also raised at the Public Hearing. There, Essential Water highlighted that the overall water quality has improved since the Wentworth pipeline commenced, and that while there had been a handful of taste and odour issue events, the water has consistently met Australian Drinking Water Guidelines.²⁹ Attendees at the Public Hearing agreed with this sentiment.³⁰

The JEC expressed broad support for investment in supplementary water supply "Considering the materiality of the impact of a potential water supply security event," such as a blackwater event, and the "increased likelihood of such events in the context of climate change."³¹

Some Public Hearing attendees expressed their support for Essential Water's proposed capital works to comply with Environment Protection Authority (EPA) requirements and enhance water quality and reliability.³² Further, approximately a third of survey respondents indicated that Essential Water better managing its infrastructure, ensuring services do not deteriorate, is important to them regarding Essential Water's prices.

FBHL however endorsed a robust review of Essential Water's capital expenditure program and overhead costs.³³

2.2.4 Stakeholders expressed concerns surrounding lead dust, health outcomes and mining

In a submission to our Issues Paper, one stakeholder warned that high water prices would prevent the people of Broken Hill keeping lawns and gardens to mitigate lead dust.³⁴ JEC submitted that "it is neither reasonable nor fair for households to be responsible" for the costs relating to dust suppression, especially given affordability considerations.³⁵ This sentiment was mirrored by a Public Hearing attendee, who pushed for keeping water prices down to encourage dust suppression, noting long term impacts on children and costs.³⁶

However, a range of methods for encouraging greater water use and how it should be paid for were put forward with:

- one survey response suggesting targeted subsidies to families with children
- creative solutions such as rainwater tank rebates to encourage garden growth to help mitigate lead dust
- some submissions and survey responses suggesting lower water use prices, and that mines should be responsible for suppressing lead dust exposure
- The JEC expressing that mining companies should pay for the costs of dust mitigation until there is an issue of commercial viability, at which point the government should fund that directly³⁷
- A local business highlighting that businesses which cause lead dust should shoulder the financial cost of that ³⁸.

The NSW Chief Health Officer sent a letter to the IPART Chair highlighting existing guidance around washing down play equipment to mitigate the impacts of lead dust, and that increases to water pricing may impact use of evaporative air conditioners which are important to the health of residents.³⁹

In its pricing proposal, Essential Water noted that reducing water usage prices to encourage water consumption was not the preference of the Customer Panel who believed that dust suppression should not be a responsibility of residential customers but rather the mining companies.⁴⁰ Essential Water's customers were in favour of key government agencies working with Broken Hill Council and Essential Water to manage the issues posed by lead dust.⁴¹

2.2.5 Stakeholders expressed views about engagement and accountability

Customer engagement

In 2 submissions to our Issues Paper, and in majority of survey responses, stakeholders indicated they had not been informed of Essential Water's proposed price increases through customer engagement, media campaigns or a public consultation process. Additionally, survey responses indicated that majority of customers were not aware the Essential Water had undertaken community engagement initiatives since 2023.

Six survey responses expressed concerns that Essential Water's Customer Panel was comprised of ex-Essential Water employees. We sought clarification on this matter from Essential Water, who noted that it is aware that 1 member of the Customer Panel was previously employed with Essential Water. Essential Water's Customer Panel process is outlined in Appendix F.5.2.

Stakeholders called for further performance measures

EWON recommended that Essential Water include a section on 'affordability and financial vulnerability' in its performance measures, as its "customers are facing a significant price increase" and it would therefore be appropriate to track and report on these measures over the upcoming determination period.⁴² EWON's recommended measures and targets relating to affordability and financial vulnerability would apply to owner occupiers and tenants, and are reproduced in Table 2.1.

Table 2.1 EWON's recommended measures and targets

Customer and community outcomes	Performance measures	Targets
Affordability and financial vulnerability	Affordability support	The number, or percentage, of customers supported under the 'Company Policy: Essential Water Financial Hardship Support' with payment plans or debt waivers
	Family violence support	The number of customers affected by family violence supported
	Debt collection	The number of water restrictions completed for non-payment
	Financial vulnerability	The number or percentage of customers managing a debt The average debt per customer

Source: The Energy and Water Ombudsman NSW, [submission to IPART 2025 Essential Water & the Murray River to Broken Hill pipeline price reviews – Issues Paper](#), November 2025, p 3.

The JEC submitted that, in relation to affordability considerations, Essential Water should be required to implement a more comprehensive set of performance metrics, aligning with what it has recommended in recent reviews of Local Water Utilities, including:

- customers in arrears, by category (30, 60, 90, 120 days)
- customers in 'hardship' support
- customers disconnected/restricted (and figures on restoration)

- unplanned service outages
- water quality failures and boil-water notices
- customer complaints (by category).⁴³

The JEC submitted that these measures can be supplemented by specific metrics relating to Essential Water's performance and Broken Hill.⁴⁴

Further, majority of survey responses indicated they were not aware that Essential Water publishes quarterly and annual performance reports on Essential Water's website. Majority of those who were aware of these reports indicated that they are not adequate to hold Essential Water accountable to its customers.

Performance measures and targets are discussed further in Chapter 9.

Survey summary



102

Responses to our Issues Paper Survey

90%

Of those that self-identified as owning or renting and living in a property that is charged a water bill strongly disagreed that the proposed increase in typical household bills are affordable with little or no impact on their living standard.

48%

Are either not satisfied or very dissatisfied with the water and wastewater service received from Essential Water for the money paid.

66%

Think Essential Water's service has worsened or not improved over the 4 years since the last determination.

84%

Either disagreed or strongly disagreed with Essential Water's proposal to recover most of its additional costs to service customers through the water service charge (a fixed charge that does not vary by water usage).

77%

Were not aware that Essential Water had undertaken community engagement initiatives since 2023.

54%

Of those aware of Essential Water's quarterly and annual performance reports believe they are not adequate to hold Essential Water accountable to its customers.

What matters most to you about Essential Water's prices?



Affordable prices and impacts on the cost of living



More support to financially vulnerable customers



Manage infrastructure and ensure services don't deteriorate

2.3 We have considered all stakeholder feedback

Consultation with the community is an important part of our water pricing review process. We have considered all feedback provided on Essential Water's proposed prices in making our draft decisions on maximum prices to apply from 1 July 2026. The following chapters explain our draft decisions including our considerations of stakeholder feedback.

2.4 Our draft decision is to set a determination length of 5 years


Our draft decision is:



1. To set prices for a 5-year determination period commencing 1 July 2026 and ending 30 June 2031.

Essential Water has proposed a 5-year determination period as population growth is flat, demand forecasts are relatively stable, proposed expenditure has been informed by long-term planning, and it has a secure supply of water from the Broken Hill Pipeline.⁴⁵

For each water pricing review, we need to decide how long to set prices for (the length of the determination period), which is generally between 1 and 5 years. Our draft decision is to set a 5-year determination period, which we consider provides a balance between reducing regulatory burden on Essential Water and managing the risks of unforeseen events or circumstances.

Chapter 3 

Operating expenditure

03

Summary of our draft decisions on operating expenditure

Our draft operating expenditure is set at \$246.5 million for 5 years

At around \$49.3 million per year this is:

- \$1.1 million per year (or 2.3%) higher than proposed by Essential Water
- \$8.9 million per year (or 22.2%) higher than we used to set prices in 2022.

Draft core operating expenditure is \$98.0 million for 5 years

Core operating expenditure is the day-to-day running costs of the business, excluding bulk water costs. At \$19.6 million per year this is:

- \$0.8 million (or 4.1%) lower than proposed by Essential Water
- \$3.8 million (or 24.4%) higher than we used to set prices in 2022.

Draft bulk water expenditure is \$148.5 million for 5 years

Bulk water expenditure is how much Essential Water pays WaterNSW for the water it delivers to Broken Hill through the Wentworth to Broken Hill Pipeline. The NSW Government has indicated it will continue to fully reimburse Essential Water for these costs and as such, these bulk water costs do not impact customer bills over the next 5 years.

At \$29.7 million per year bulk water costs are:

- \$1.9 million per year (or 7.0%) higher than proposed by Essential Water
- \$5.1 million per year (or 20.7%) higher than we used to set prices in 2022.

This chapter sets out our assessment of the level of operating expenditure Essential Water requires to operate its business efficiently over the 2026 determination period. Essential Water'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, electricity, contractors, treatment operations and insurance.

We have carefully reviewed Essential Water's proposed operating costs using a base-trend-step approach, as outlined in our water regulation handbook.⁴⁶ In reaching our draft decisions, we considered expert advice from Stantec, additional supporting documentation provided by Essential Water and comments from stakeholder consultation. [Stantec's report on its assessment of Essential Water's expenditure](#) forecast is available on our website.⁴⁷

Our assessment of Essential Water's operating expenditure balances the considerations set out in sections 14A(2) and 15(1) of the IPART Act. In particular, we have made decisions:

- on a continuing cost efficiency target that should allow Essential Water to deliver high quality, reliable and safe services without being compromised
- which consider the costs of providing services in regional NSW and also the need for greater efficiency in the supply of services
- that manage costs in treatment of decommissioning of wastewater treatment plants to protect the environment and meet environmental regulations.

In our analysis in this chapter, we have excluded the cost of using the Pipeline. These costs are not recovered through prices paid by customers, but through a contribution by the NSW Government. More details on costs are set out in Chapter 6.2.1 of this report and in our concurrent review of costs and prices for the [Pipeline](#).

3.1 Essential Water's total efficient operating expenditure is \$246.5 million

Our draft decision is to set Essential Water's total efficient operating expenditure over the 2026 at \$246.5 million as set out in Table 3.1.

Table 3.1 Draft decision on Essential Water's total efficient operating expenditure (\$million, \$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Core expenditure	19.6	19.6	19.6	19.6	19.7	98.0
Bulk water expenditure	29.7	29.8	29.7	29.7	29.7	148.5
Total	49.3	49.3	49.3	49.3	49.4	246.5

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

We discuss core operating expenditure and bulk water expenditure in sections 3.2 and 3.3 respectively.

3.2 Essential Water's proposed core operating expenditure is mostly efficient

Our draft decision is:



2. To include \$98.0 million of efficient operating expenditure in Essential Water's notional revenue requirement for the 2026 determination period, as shown in Table 3.2.

Table 3.2 Draft decision on Essential Water's efficient core operating expenditure (\$million, \$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Water	12.0	12.0	12.0	12.0	12.0	59.9
Wastewater	3.4	3.4	3.4	3.4	3.4	16.9
Corporate	4.2	4.2	4.2	4.2	4.2	21.1
Total	19.6	19.6	19.6	19.6	19.7	98.0
Essential Water proposed	20.2	20.2	21.2	20.2	20.2	102.2
<i>Difference</i>	-0.7	-0.7	-1.7	-0.6	-0.6	-4.2
<i>Difference (%)</i>	-3.4%	-3.4%	-7.9%	-3.1%	-2.8%	-4.1%

Source: IPART analysis

Essential Water proposed operating expenditure of \$102.2 million for the 2026 determination period, averaging around \$20.4 million per year and excluding costs for transporting water using the Pipeline⁴⁸. This is around 1.5% higher than 2025-26 operating expenditure at \$20.1 million but represents a 29.7% annual average increase on expenditure allowed over the 2022 determination period.

Our draft decision is that Essential Water's proposed operating expenditure is mostly efficient but we have made some adjustments resulting in a lower allowance. Our draft decision is an operating expenditure of \$19.6 million per year on average, which is \$3.8 million (24.4%) higher than the allowance we used to set maximum prices in 2022.

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

Essential Water has adopted IPART's base-step-trend methodology to forecast its operating expenditure for the 2026 determination period. This included:

- establishing a base operating expenditure for 2024-25, removing a one-off labour cost item⁴⁹
- applying a growth trend factor to real labour components
- adjusting for a step change, which is for decommissioning of the current WWTPs at Wills St and South Broken Hill at a one-off expense of \$1 million.⁵⁰

Essential Water has also proposed a cost efficiency target of 0.5% per annum of its forecast operating expenditure over the 2026-31 determination period.⁵¹

3.2.1 Essential Water's proposed base operating expenditure included some non-recurrent expenditure

Essential Water proposed a base operating expenditure of \$19.8 million^a, which was its 2024-25 expenditure, removing a one-off labour cost item.⁵² To help inform our decision on whether this is an efficient benchmark for future operating expenditure, our expenditure experts reviewed Essential Water's actual expenditure against the efficient level of operating expenditure to set maximum prices in 2022 and evidence provided to support adjustments made for climate variability, non-recurring and non-controllable costs.

Over the 2022 determination period, Essential Water's actual operating expenditure was \$14.6 million (23.2%) higher than the estimated efficient costs we used to set maximum prices in 2022. This is set out in Table 3.3.

Table 3.3 Essential Water's core operating expenditure over the 2022 determination period (\$million, \$2025-26)

	2022-23	2023-24	2024-25	2025-26	Total
2022 allowance	17.1	16.0	15.7	14.3	63.0
Essential Water's actual cost	18.7	18.9	20.0	20.1	77.7
Difference (\$)	1.6	2.9	4.3	5.8	14.6
Difference (%)	9.6%	18.1%	27.4%	40.6%	23.2%

Source: IPART analysis

Essential Water explained the reasons for the differences in spending included:

- additional labour costs in higher than expected salary costs which were related to deferred decommissioning of assets
- higher electricity prices.⁵³

Our independent expenditure experts, Stantec, found that these were largely reasonable, but proposed a slightly lower value on the basis that some contractor costs in the proposed base year appear to be one-off and not ongoing.⁵⁴

Given the above, our draft decision is to set base operating expenditure at \$19.5 million.

3.2.2 Our draft decision includes one step change regarding regulatory costs

Essential Water recommended a single step change, which was for a one-off cost of decommissioning the South Broken Hill and Wills St W/WTPs in 2028-29.⁵⁵ While decommissioning the existing plants upon commissioning of the new plant is prudent, its appropriateness as operating expenditure is a relevant consideration.

^a Calculated from the water and wastewater baseline controllable figures in Table 13 on page 54 of Essential Water's proposal.

Stantec suggested including this cost in the capital cost of the new Wills St WWTP rather than as operating expenditure. This was based on uncertainty in the cost estimate of \$1 million and an inability for an ex-post review of the actual costs or timing.⁵⁶

We have however made a draft decision to include one step change of \$60,000 in years 4 and 5 of the determination period to account for regulatory costs to develop its next pricing proposal.

3.2.3 Our draft decision aligns with Essential Water's proposed trend component

Essential Water proposed real input price growth based on expected above-inflation growth in labour prices, which were applied proportionally to total operating costs (including overheads).⁵⁷ We asked Stantec to consider this, and they found it to be consistent with the business conditions Essential Water would face over the future period.⁵⁸

Essential Water did not propose any output growth as a result of a stable expected population and number of billable entities throughout the 2026 determination period (see section 6.1.1).⁵⁹

We consider that Essential Water's proposed trend component expenditure is efficient.

3.2.4 Essential Water proposed a suitable target for ongoing efficiency

Cost efficiency targets are an important way for businesses to demonstrate a commitment to achieving ongoing efficiency and delivering improved value to customers.

Essential Water proposed a cost efficiency target of 0.5% per year on its forecast operating and capital expenditure.⁶⁰ For operating expenditure, this equates to a cost efficiency of \$2.0 million over the 2026 determination period.

Essential Water stated that their target is consistent with their approach across Essential Energy's electricity business and associated Australian Energy Regulator (AER) findings.⁶¹ Further, their Cost Efficiency Strategy includes historical benchmarking and a plan to meet this target.⁶²

Stantec assessed Essential Water's targets and did not find the 0.5% efficiency factor to be directly relevant or transferrable to the water sector. Stantec highlighted that a market sector-based estimate of Australian multifactor growth productivity (MFP) would suggest a higher efficiency factor of 0.8%.⁶³ However, Stantec also noted Essential Water's unique challenges in operating a business in a remote location compared to an 'average' enterprise in the broader economy, particularly "challenges in sourcing and attracting and retaining a skilled labour force".⁶⁴

We have considered Essential Water's proposed efficiency target in the context of its operating environment. With this in mind, we consider that Essential Water's proposed 0.5% efficiency target is appropriate. Our draft decision is to set the proposed efficiency target at 0.5% per annum.

3.3 Essential Water's bulk water costs

Since 2019, Essential Water has sourced the majority of its water supply needs by transporting water from the Murray River using the Pipeline. The costs for this bulk water are paid by Essential Water to WaterNSW, and therefore are part of Essential Water's operating expenditure.

Our draft decisions factor in \$148.5 million for bulk water over the 2026 determination period. This amount is the subject of a simultaneous IPART [pricing review into the Pipeline](#). Increasing bulk water costs reflect a higher cost of capital than in the previous determination. More information and analysis behind that draft price is included in our Draft Report for that review.

Table 3.4 Draft decision on Essential Water's bulk water costs (\$million, \$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Draft decision	29.7	29.8	29.7	29.7	29.7	148.5
Essential Water proposed	25.2	26.5	27.7	29.0	30.4	138.8
Difference (\$)	4.5	3.3	2.0	0.7	-0.7	9.7
Difference (%)	17.8%	12.4%	7.2%	2.3%	-2.4%	7.0%

Source: IPART analysis

Consistent with our 2019 and 2022 determinations and indications we have received from NSW Government, we are preparing this Draft Report on the basis that the full bulk water expenditure via the Pipeline will be funded by government.

Chapter 4 >>

Capital expenditure

04

Summary of our draft decisions on capital expenditure

Include \$57.3 million of Essential Water's capital expenditure since 2021-22 in its regulatory asset base

We reviewed Essential Water's capital costs since 2021-22 to determine whether they met the prudence and efficiency criteria to include them within its RAB roll-forward.

Our view is that \$57.3 million of Essential Water's capital costs during this period were prudent and efficient. Our draft decision is to include Essential Water's actual capital costs since 2021-22 in its RAB roll-forward, however defer some expenditure in 2025-26 to 2026-27 on the basis it is not likely to be expended in the current financial year.

Include \$171.1 million of efficient capital expenditure into Essential Water's notional revenue requirement build-up over the 2026 determination period

We have made a draft decision to include \$171.1 million of Essential Water's capital expenditure into the notional revenue requirement (NRR) build-up for the 2026 determination period.

Essential Water has prioritised capital projects that are valued by customers and deliver greater water reliability to customers, as well as include necessary and unavoidable infrastructure upgrades such as the Wills St W/WTP. In the context of a significant capital expenditure program and affordability concerns, our draft decisions further prioritise expenditure in projects that will result in the greatest value in outcomes to customers, and to reflect more realistic delivery timelines.

We are seeking feedback on whether Essential Water's proposed capital expenditure delivers the right customer outcomes for this determination period, or whether customer outcomes could be better optimised.

We are additionally seeking feedback on how Essential Water's supplementary water infrastructure is used going forward, namely the Stephens Creek Reservoir.

This chapter sets out our assessment of Essential Water's capital expenditure required to deliver good quality services and promote customer outcomes. Essential Water's capital costs are the investments it makes to buy, build and renew the infrastructure and equipment it uses to provide its services (e.g. water mains and pipelines, wastewater treatment plants, IT systems).

We have carefully reviewed Essential Water's proposed capital costs in light of its long-term investment plan, its program to replace ageing assets and comply with environmental regulations, and its need to address priority customer outcomes and deliver value for money.

Our assessment of Essential Water's capital expenditure balances the considerations set out in sections 14A(2) and 15(1) of the IPART Act. In particular, we have made decisions:

- which consider the costs of providing services in regional NSW and also the need for greater efficiency in the supply of services
- on a continuing cost efficiency target that should allow Essential Water to deliver high quality, reliable and safe services without being compromised
- that consider the social impacts of raising prices where affordability is a key issue for customers
- that balance Wills St WWTP timing and sewer upgrades timeframes for cost and environmental risks.

In reaching our draft decisions, we considered independent expert advice from Stantec, additional supporting documentation provided by Essential Water and comments from stakeholder consultation. [Stantec's report on its assessment of Essential Water's expenditure](#) is available on our website.⁶⁵

4.1 Essential Water spending over the last 5 years

Our draft decision is:



3. To set Essential Water's actual capital expenditure over 2021-22 to 2025-26, as shown in Table 4.1.

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 business's regulatory asset base and recovered through prices. When we assess historical capital expenditure, we look at spending over the current determination period (2022-26), as well as spend over the final year of the last determination period (i.e. 2021-22)^a.

Over the 2022 determination period, Essential Water's reported actual capital expenditure was materially lower (\$28.0 million or 31%) than the efficient funding envelope set in the 2022 determination. This is set out in Table 4.1 below.

^a We look at spend over the final year of the last determination period (2021-22) because at the time of setting prices for our current determination period (2022-23 onwards) we would not have had a complete year of actual expenditure data from 2021-22 to assess its efficiency.

Table 4.1 Efficient capital expenditure for the 2022-25 period (\$millions, \$2025-26)

	2021-22	2022-23	2023-24	2024-25	2025-26 ^b	Total
Determination allowance	17.8 ^a	33.2	29.4	18.8	7.7	107.0
Essential Water's reported actual	5.1	8.4	4.6	14.5	33.6	66.2
Adjustment for expenditure review (deferred to 2026-27)	0.0	0.0	0.0	0.0	-8.9	-8.9
Total efficient base capital expenditure	5.1	8.4	4.6	14.5	24.7	57.3
<i>Difference (\$)^c</i>	-12.7	-24.8	-24.8	-4.3	17.0	-49.7
<i>Difference (%)^c</i>	-71.5%	-74.7%	-84.5%	-22.8%	221.0%	-46.4%

a. This figure refers to the expenditure we determined as efficient in our 2022 review of Essential Water's prices.

b. 2025-26 figure is a forecast.

c. The table shows the difference between the determination allowance and total efficient capital expenditure.

Essential Water provided an explanation for the variance in its allowed and actual expenditure, including the following adjustments:

- Wills St WWTP – had \$34.4 million allocated, however was not yet at tendering when the proposal was submitted.
- Graziers pipeline – \$7.8 million was included, however heritage studies and barriers to Australian Government grants resulted in the project being put on hold and with supply to the relevant customers currently being met by the Menindee pipeline (through a gravity configuration), this project is no longer proposed for the 2026 determination period.
- Stephens Creek – the planned \$4.6 million in works on the reservoir dam wall and related works, including the Mica Street service reservoir replacement and Rocky Hill service reservoir refurbishment and replacement, was delayed so that a water supply optimisation study could be completed instead.

Stantec considered project deferrals, such as the Graziers pipeline, as evidence of internally challenging the need for capital investment at various stages of project development.⁶⁶

However, forecast capital expenditure in 2025-26 does not appear to be achievable. As at October 2025 (one third of the way into the financial year), Essential Water had spent only \$3.1 million (excluding corporate overheads).⁶⁷ Our draft decisions therefore defer some expenditure, particularly relating to the water mains renewals program and the Wills St WWTP, from 2025-26 into 2026-27.

We have therefore made a draft decision to set Essential Water's capital expenditure from 2021-22, as shown in Table 4.1.

4.2 Essential Water proposed a large capital expenditure envelope

Essential Water proposed capital expenditure of around \$49.4 million per year (or \$246.9 million in total) over the 2026 determination period in its revised proposal.^{68 b} This is:

- \$27.1 million (or 122%) higher per year than our decision on efficient forecast capital expenditure we used to set prices in 2022
- \$34.1 million (or 223%) higher per year than its actual capital expenditure over the 2022 determination period.^c

4.3 We have set Essential Water's forecast capital expenditure lower than proposed

Our draft decision is:



4. To set the efficient level of forecast capital expenditure at \$171.1 million for the 2026 determination period, as shown in Table 4.2.

The capital expenditure allowance we set for Essential Water represents our view on the overall envelope of capital expenditure that we consider reasonable to maintain or improve Essential Water's assets and services over the upcoming determination period. It doesn't signal the amount it is required to spend on specific capital projects, or discrete allowances for specific works. We expect a business to prioritise its planned prudent and efficient capital works within the envelope of capital expenditure that we consider reasonable to recover through customer prices.

We have made a draft decision to set efficient capital expenditure of \$171.1 million over the 2026 determination period (i.e. around \$34.2 million per year).

Table 4.2 below summarises our draft decision on Essential Water's efficient level of capital expenditure for the 2026 determination period.

In the following sections we outline our analysis and explain how and we reached this draft decision. We also note specific areas where we are seeking input from stakeholders to inform our final decisions on Essential Water's capital expenditure.

Table 4.2 Draft decision on Essential Water's efficient capital expenditure (\$million, \$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-2031	Total
Water	16.7	4.4	4.8	4.6	4.3	34.8
Wastewater	28.9	38.3	32.2	10.1	3.1	112.6
Non-system	1.7	3.3	7.3	10.2	1.1	23.6
Total	47.3	46.0	44.4	24.8	8.6	171.1

^b Essential Water submitted revised capital expenditure in November 2025, to accommodate recommendations on water supply optimisation.

^c These figures are as proposed – and thus do not factor in the deferral of some 2025-26 capital expenditure.

Essential Water proposed \$246.9 million in capital expenditure over the 2026 determination period

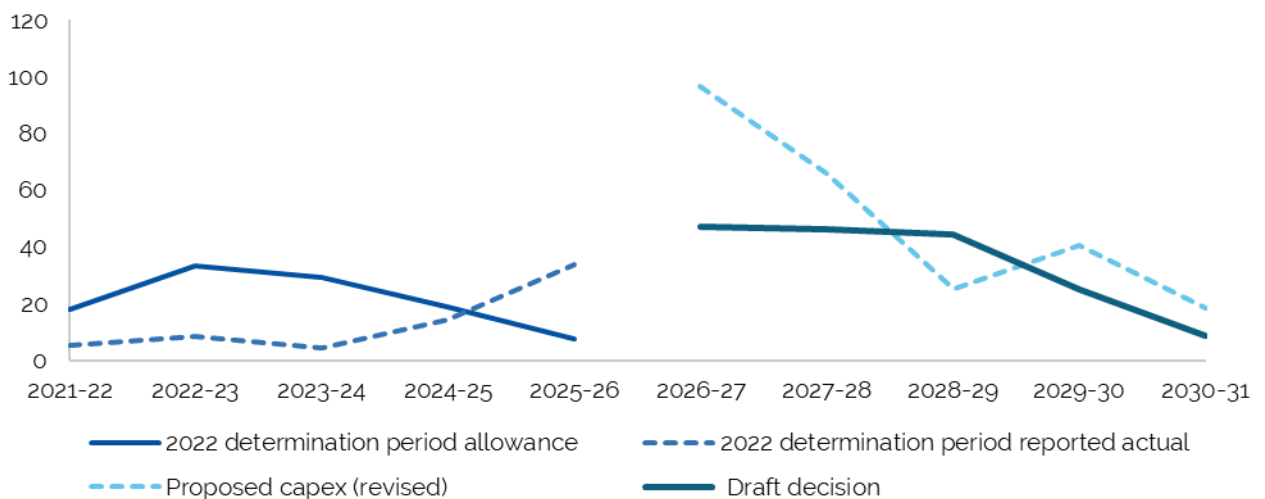
Essential Water has proposed investing \$246.9 million in capital expenditure across a range of projects.⁶⁹ This includes:

- the Wills St WWTP
- water mains renewals program
- sewer mains renewals program
- smart metering
- Stephens Creek water pump station
- other water and wastewater projects.

Essential Water also proposed a 0.5% efficiency target.⁷⁰ It identified various cost efficiency programs to pursue over the upcoming period to deliver these efficiencies, which it outlines in its Cost Efficiency Strategy.⁷¹

Overall, Essential Water’s proposed capital expenditure is a large increase from spending levels in prior years. Figure 4.1 below compares Essential Water’s proposed capital expenditure for this period relative to prior years.

Figure 4.1 Comparison of Essential Water’s proposed capital expenditure to prior years (\$million, \$2025-26)



Source: Essential Water, IPART analysis.

Essential Water prioritised capital expenditure which matched customer preferences, but wasn't subject to portfolio-level planning

In developing its proposal Essential Water considered feedback from customers that emphasised the importance of reliable and good quality water and value for money. Essential Water’s proposal to roll out smart meters directly responds to customer feedback (discussed in section 4.4.2).

We consider Essential Water's key business systems and processes, including risk, asset management and procurement processes, have a solid base but have opportunities for improvement. As noted by Stantec, there is evidence of a solid foundation of systems and processes within Essential Water, however these are focussed at a project level and don't demonstrate the maturity of an integrated planning approach at a portfolio level.⁷²

Stantec noted Essential Water's Strategic Plan (FY17-FY23), Water Asset Management Plan (WAMP) (FY18-27), and Integrated Water Cycle Management Strategy (2022) have not been updated since IPART's 2022 pricing review. Stantec note that consequently the "information in the documents related to the proposed projects is out of date and doesn't align with timing and expenditure profiles presented in the pricing proposal".⁷³ However the scope is "relatively consistent with those included in the pricing proposal".

The documents were consistent with each other, but not observed to be fully implemented in practice. Further, they do not meet the standard expectation of a Strategic Asset Management Plan (SAMP) and Asset Management Plan (AMP).⁷⁴

We are interested in hearing from stakeholders on whether the level of expenditure and activity in Essential Water's proposal delivers the right customer outcomes for this determination period when balanced with costs, or whether customer outcomes could be better optimised by a different pace in some programs. We discuss the planning and investment draft decisions below in section 4.4.

We find Essential Water's capital expenditure proposal is greater than required

Stantec reviewed Essential Water's proposed capital expenditure for the 2026 determination period and proposed:

- A lower bound expenditure allowance of \$170.3 million, whereby:
 - expenditure on the Stephens Creek pump station is delayed,
 - water mains replacement only continues at the current rate, and there is lower rate of wastewater mains works
- An upper bound expenditure allowance of \$183.8 million, whereby
 - expenditure on the Stephens Creek pump station is included in year 5 of the determination period
 - water mains and wastewater mains replacement levels are higher than the lower bound, but lower than the proposal.⁷⁵

Stantec's upper bound was the Essential Water pricing proposal recommended expenditure excluding:

- scope adjustments (activities that could be considered outside the scope of the regulated service or are not sufficiently certain to proceed)
- efficiency adjustments (removal of operational inefficiencies, more realistic cost assumptions, bundling of activities, more realistic expenditure profiling, etc.).

The lower bound was built as the high range with further exclusions in:

- service level adjustments, removing projects that can be deferred, removing non-essential activities and projects (with accompanying risk analysis), and identifying non-essential projects/activities to provide the Tribunal with flexibility to balance service levels and affordability
- potential savings from changes in assumptions, such as accepting a high risk of failure, lower population growth, etc.
- potential savings opportunities from reforms to the operating environment.⁷⁶

We have considered Stantec's report, Essential Water's proposal, stakeholder views and undertook additional analysis on this matter. Our draft decision is for an expenditure allowance which is ultimately between the upper and lower bounds, reflecting on individual consideration of each proposed capital project in the context of complementary and competing considerations under section 15(1) of the IPART Act.

Our draft decision is therefore to set capital expenditure of \$171.1 million over the 2026 determination period, equivalent to roughly \$34.2 million per year. This figure includes corporate overheads and capital expenditure which has been deferred from 2025-26 to now be in the 2026 determination period.

This is \$11.9 million (or 54%) higher on average per year than the allowance we used to set maximum prices in 2022. Some of the expenditure, namely regarding the Wills St WWTP has been reprofiled into later years of the determination period, which also impacts how expenditure impacts the RAB, the NRR and ultimately the revenue required in water and wastewater charges.

As noted earlier, the major drivers for Essential Water's proposed capital expenditure are replacing essential water and wastewater assets including the Wills St WWTP. We discuss our reasoning for including expenditure in section 4.4 below.

4.4 We considered the key proposed capital expenditure projects

In the context of a large proposed increase in capital expenditure built on the need to replace ageing infrastructure, and serious affordability concerns for customers, we reviewed each of Essential Water's key projects with regards to considerations under section 15(1) of the IPART Act, which ultimately led to our draft decisions on the capital expenditure envelope.

4.4.1 We consider it is prudent to include expenditure for water and wastewater infrastructure in this period

The most significant component of Essential Water's proposed capital program is the replacement of ageing infrastructure, specifically the Wills St WWTP, water mains, and sewerage mains in Broken Hill.

Wills St WWTP

Stantec considers the project to be prudent and efficient, however its upper and lower bound reprofile capital expenditure over 2026-27 to 2029-30.⁷⁷ The upper bound assumes commissioning in 2028-29, and the lower bound in 2029-30.

Replacing the existing Wills St WWTP (also allowing decommissioning of South WWTP) is supported by stakeholders and customers. The original Wills St WWTP was commissioned in 1939 and does not meet modern standards and environmental pollution concentration limits. As of 2021, there is an EPA condition on the Wills St WWTP to be replaced with an IDEA plant to treat flows sent to both plants.⁷⁸

In IPART's [2022 pricing review Final Report](#), the project was included with a total cost of \$28.5 million⁷⁹. This estimate has increased considerably to the recommended \$79 million (plus indirect costs) on the basis of the detailed design prepared by Beca Hunter H₂O.

The cost estimate at the time of the 2022 determination was a 'pre-design concept stage cost estimate' prepared at a conceptual level only, and was not comprehensive to the specific site and design requirements.

The increase is attributed to a range of items, which in totality comprise refining the design to meet the required specifications, and for the specific site. The last cost estimate was developed at the 85% design milestone as at July 2025, and is unlikely to be subject to significant change. We consider the updated cost to be efficient.⁸⁰

In June 2025, the NSW Government approved a \$17.6 million grant for the project under the Safe and Secure Water program.⁸¹

The basis for reprofiling the capital expenditure is:

- 2025-26 expenditure which is significantly below forecast, with 1% spent as of October 2025
- project delivery planning, such as delineation of roles and responsibilities between Essential Water, Essential Energy and Public Works Advisory which are yet to be agreed, and the project management plan not yet being delivered
- a backlog of capital projects which were planned for 2025-26 which are being reprofiled to 2026-27, and availability of Essential Water staff to oversee and support the management of them
- a pattern of deferred capital delivery through the current determination period
- the history of timing for similar projects in NSW.⁸²

We note the existing EPA licence for Wills St WWTP, and the risks of regulatory action if the new plant is not commissioned by mid-2028⁸³. We consider that Essential Water is able to manage compliance with EPA obligations in the lead up to the commissioning of the new plant.

Our draft decision factors in the capitalisation of the decommissioning costs for the retiring WWTPs after the commissioning of the new plant, which were proposed as operating expenditure.

Our draft decision adopts the lower bound on the basis that the project should be delivered, that delivery in 2029-30 is more achievable and realistic, and that moving funding forward to earlier years does not make a significant impact in the management of environmental compliance risks, while moving it back does support affordability.

Water mains replacement

Essential Water has proposed 6 kilometres of water mains renewal annually (using contractors), increasing from 1 kilometre (delivered internally). Essential Water's business case for mains replacement cites the age of the infrastructure and increased bursts, with below 20% (approximately 36 kilometres) of the network constructed prior to 1960, although a further 27% (approximately 58 kilometres) was constructed between 1960 and 1970.⁸⁴

When compared with comparator utilities, however based on National Performance Report (NPR) data, main breaks, bursts and leaks, Essential Water has generally performed better than its peers. These events have been below the cohort median in 7 of the last 10 years, and over the past 3 years of published data (2021-22 to 2023-24) well below the cohort median.⁸⁵ A similar trend is reflected in DCCEEW data using a comparator cohort of NSW local water utilities.

Essential Water has several internal sources of information on asset condition, however Stantec concluded these sources provide 'varying pictures of asset health', and does not use standardised terminology and reporting criteria.

Stantec notes that the proposed rate of renewal is not justified by the available data, the lack of risk-based prioritisation in the proposal and the challenges transitioning immediately from 1 to 6 kilometres per year.⁸⁶

Stantec therefore did not consider that the need for increased capital investment into water mains had been fully justified. Its lower bound assumes the same rate of renewals as in the 2022 determination period, and its upper bound transitions more slowly to a lower level than proposed by Essential Water. Consequently, Stantec's:

- lower bound is to maintain 1 kilometre per year
- upper bound is to increase to 3 kilometre per year for years 2-5.⁸⁷

Our draft decision is for water mains expenditure which increases from the lower bound to the upper bound, so that Essential Water reaches 3 km/year in years 4-5, but allows more time to refine its data and its risk-based prioritisation.

This rate balances considerations that the proposed rate of replacement is not supported by main breaks, bursts and leaks data, and that Stantec's recommended upper bound recognises that the network is ageing. We consider it may take longer than anticipated to increase renewals to the upper bound as the current program has been delivered internally.

Sewer mains relining

Essential Water's proposal increases the current rate of renewals from 5 to 15 kilometres of sewer mains replacements per year.⁸⁸

Essential Water's business case cites "increasing blockages, tree root intrusion, cracking, joint displacement, infiltration, and asset failures as the drivers for its sewer mains renewals program", with 40% of the network constructed prior to 1950, and a further 6% prior to 1960.⁸⁹

The sewer mains blockages/leaks/failures are supported by NPR data with Essential Water performance being below all comparator utilities in 8 out of the last 10 years. Local water utility data through DCCEEW further establishes this position, though notes a downward trend in breaks and chokes in the last 4 years.⁹⁰

Stantec agree with the general need for increased capital investment in Essential Water's sewer mains, noting the evidence of sewer mains blockages, leaks and failures, as well as Essential Water's existing success working with contracted third parties to carry out works.

However, Stantec does have reservations concerning a lack of condition and performance analysis underpinning a prioritised risk-based renewals program. As a result, Stantec recommended adopting actual 2024-25 expenditure (at 10 kilometres a year) for 2025-26, then for the rest of the determination period:

- the lower bound to stay at 10 kilometres a year
- the upper bound to increase to 15 kilometres a year.⁹¹

Our draft decision incorporates the lower bound, which increases the rate of renewals so that 75 kilometres of sewer mains are renewed in total in the 2022 and 2026 determination period. This covers all mains constructed before 1950 by the end of the 2026 determination period, which represent the highest risk (aged assets increasing blockages).

4.4.2 Our draft decisions do not include expenditure for a smart meter rollout

Stantec included no allocation for smart metering rollout in either the lower or upper bound and do not consider it prudent and efficient based on the existing business case.⁹²

Smart meters are the only service improvement proposed by Essential Water, with the rest of the capital program centred around renewing ageing infrastructure. In terms of practicality, stated benefits include fewer bill shocks from earlier leak detection, and increased water security through loss reduction.⁹³

Essential Water highlighted that an outsized proportion of its analogue meters are overdue for replacement and that they have had issues in accessing analogue meters for timely readings. It also notes that DCCEEW have publicly promoted the benefits of residential smart meters as part of water efficiency.

While some customers have indicated support, we consider not all costs of the proposed project have been included yet and customer support may be conditional on real value being delivered. This could be demonstrated over coming years through a robust business case analysis showing the benefits compared to the full cost.

Stantec consider that there was an “absence of market sounding to inform an accurate range of the potential capital and operational investment requirement”, that ongoing internal management costs were not included, and there was no sensitivity testing of the financial impact of the battery life of smart meters. Stantec also considered that benefits involving leak detection lack supporting evidence in the form of costs and benefits.⁹⁴

Stantec consequently set both the upper and lower bounds to only cover replacement costs for analogue meters. We note that this is an initiative with strong endorsement from Essential Water’s Customer Panel but also that the business case is not comprehensive.⁹⁵

We acknowledge some of the benefits of smart meters, such as customers being notified about leaks, and being better able manage their water usage. However, we do not consider that there is sufficient evidence to demonstrate any benefits deriving from the introduction of smart meters outweigh the costs at this stage.

Consequently, our draft decision is to include only expenditure for analogue meter replacements. We suggest that if Essential Water refine its business case for its next pricing proposal, it will have a stronger basis for the expenditure at that time.

4.4.3 We considered the use of and investment in supplementary and emergency water sources

Essential Water proposed replacing the ageing Stephens Creek pump station with a new permanent pump station at a level that would allow it to be used as a ‘supplementary water source’ (that is, 36 megalitres a day). Essential Water has not proposed for the Stephens Creek Dam Upgrade to be included in the current determination period.⁹⁶

If the Wentworth to Broken Hill Pipeline were to not be operational, the only sources of water remaining to Broken Hill would be Stephens Creek and Umberumberka, as the Menindee pipeline is no longer connected to Broken Hill. Currently, Essential Water feeds Murray River water into Stephens Creek Reservoir to maintain an emergency storage of approximately 100 ML, which represents 3 days of peak day demand. This is in addition to the 1.5-2.5 days of potable water storage in town tanks.^d

Essential Water’s Integrated Water Cycle Management (IWCM) Strategy states it anticipates “any single outage will take no longer than 3 days to restore supply”.⁹⁷ Further, Stephens Creek is a less reliable water source than the Murray River and so it is only assured to have an emergency supply if water is pumped up via the Wentworth to Broken Hill Pipeline.

Essential Water had commissioned a supply optimisation study by Sequana which discussed 3 back-up supply options for Broken Hill. This study included upgrading the pumping station as well as additional storage capacity in the Wentworth to Broken Hill Pipeline with no backup supply from Stephens Creek.

^d The Wentworth to Broken Hill Pipeline terminal storage holds 30 days of water stored at peak demand, so the risk being managed is failure between the Broken hill pump station and the Mica Street filtration plant.

Stantec recommended (under both upper and lower bounds) that Stephens Creek be used as an 'emergency water supply' only, with construction of a 22ML/day pumping station. This recommendation was consistent with the findings of the Sequana report. Stantec considers that this option is sufficient to manage risk and alleviate impacts of events such as a black water event and disruptions in the Pipeline.⁹⁸

Stantec's recommendations for upper and lower bounds therefore centred around timing of expenditure for a new 22ML/day pumping station:

- the upper bound includes funding in year 5 for construction of the new pumping station
- the lower bound assumes funding will be in the subsequent determination period (i.e. from 2031-32) as it has been operating to date.⁹⁹

The Tribunal have considered the importance of water security in Broken Hill, and the limited risks which are actively managed by the Stephens Creek reservoir as an alternate or emergency water supply and costs associated with it.

We have made a draft decision to include funding which aligns with Stantec's lower bound, on the basis that replacing the existing pumping station after 2030-31 appropriately balances water reliability and customer costs.

The draft decision maintains Stephens Creek as an emergency water supply for the 2026-2031 determination period without significant capital expenditure. It also allows for further consideration of the appropriate ownership and use of the assets in the next pricing review.

We are seeking stakeholder views on expenditure and the use of supplementary water infrastructure

In reaching our draft decision we are conscious that there are conflicting priorities for customers, and considerations under section 15(1) of the IPART Act. Namely this includes the social impact of costs to customers, environmental outcomes and compliance, quality of water, and reliability of water services.

Hearing stakeholders' views on pricing decisions is an important part of our review process. We are interested in your views on whether Essential Water's prioritisation delivers the right customer outcomes for this determination period, or whether customer outcomes could be better optimised by different levels of capital expenditure.

We are also interested in stakeholders' views on the use of supplementary water sources (i.e. Uumberumberka and Stephens Creek). There are costs associated with replacing and maintaining water infrastructure which are paid by Essential Water's customers, as well as considerations of whether including the supplementary water sources meaningfully enhances water security in Broken Hill.

Seek Comment



1. Do Essential Water's proposed capital investments, including Wills St WWTP as well as water mains upgrades and sewer mains relining deliver on the most important outcomes for customers in this price period?

2. Should supplementary water infrastructure such as Stephens Creek and Umberumberka continue to be maintained and funded for use in supplying water to Broken Hill?
3. On an assumption that use continues, should Stephens Creek be used as an 'alternative water source' or an 'emergency water source' for Broken Hill?

Chapter 5 >>

Other costs and notional revenue
requirement

05

Summary of our draft decisions on revenue requirement

Set Essential Water's notional revenue requirement at \$338.1 million over the 2026 determination period

This is \$19.8 million or 5.5% lower than Essential Water's proposal. This change is in part due to draft expenditure decisions discussed in Chapters 3 and 4.

Compared with our 2022 determination, this is an average annual increase of \$15.7 million or 30.3%.

We continue to use the building block approach to calculate Essential Water's notional revenue requirement, as outlined in our Water Regulation Handbook.¹⁰⁰

In Chapter 3 we discussed our draft decisions on Essential Water's efficient operating expenditure. Similarly in Chapter 4 we discussed draft capital expenditure levels to be included in Essential Water's RAB. This chapter now outlines our draft decisions on the other remaining building blocks and adjustments, which are:

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

5.1 Essential Water's draft notional revenue requirement is \$338.1 million

Our draft decision is:



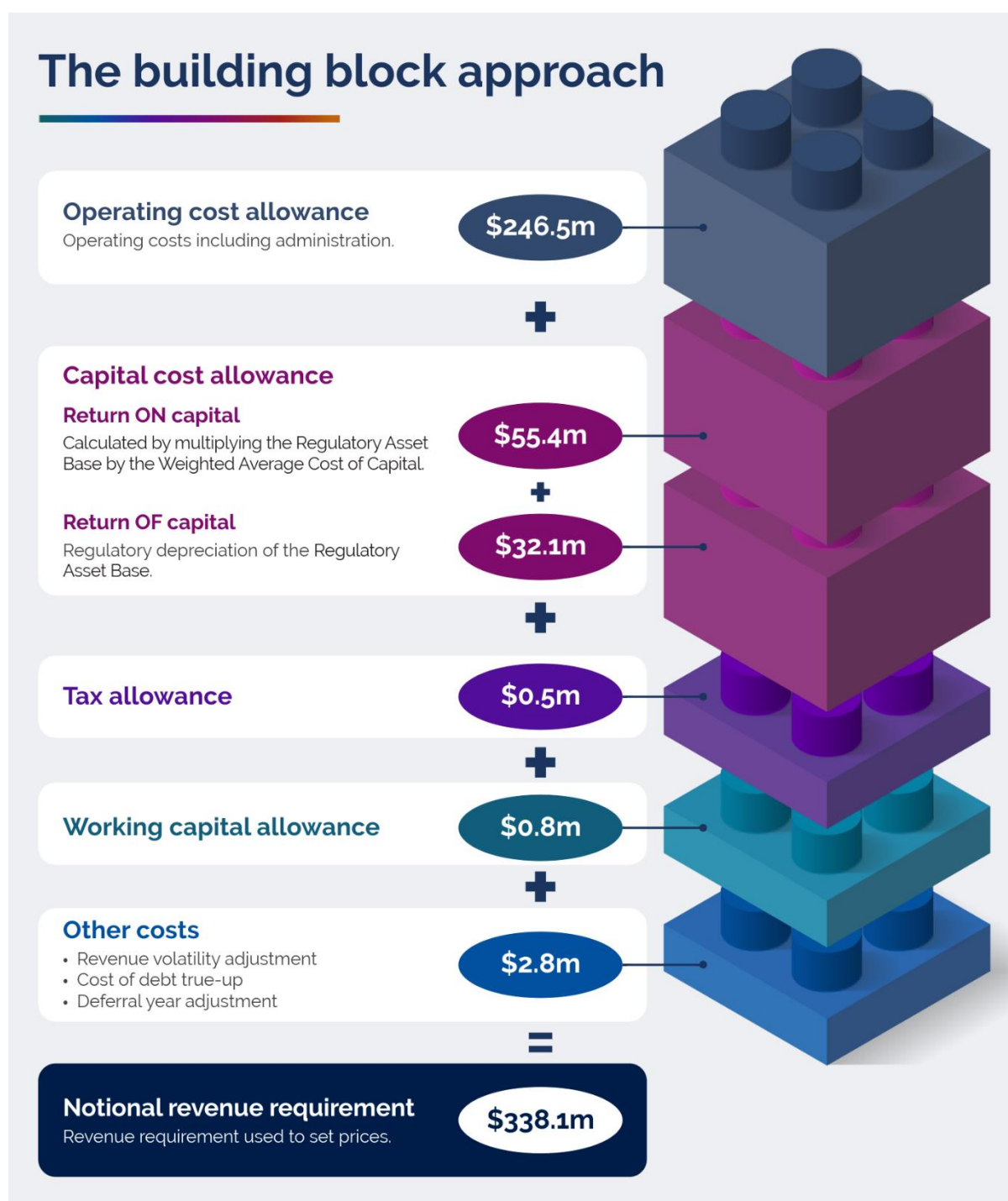
5. To set Essential Water's notional revenue requirement as \$338.1 million over the 2026 determination period.

Essential Water'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 costs and by adding them together, we arrive at a draft notional revenue requirement for Essential Water of \$338.1 million over the 2026 determination period. This amount represents our draft assessment of the total revenue Essential Water must generate to recover the efficient costs of providing its services to customers.

Figure 5.1 summarises the build-up of the notional revenue requirement using our standard building block approach. The figures shown below are a total over Essential Water's 5-year determination period.

Figure 5.1 Building block approach



Note: All dollar values shown are in \$2025-26 terms.

Our draft decision on Essential Water's notional revenue requirement is \$19.8 million or 5.5% lower than what Essential Water proposed. This is primarily due to draft expenditure decisions discussed in Chapters 3 and 4 as well as our decision to capitalise the gifted asset tax allowance true-up (see section 5.7 below) and the further implications from a higher WACC.

Our WACC calculation differs from Essential Water's because it incorporates more up-to-date market data than was available at the time that Essential Water calculated the WACC for its pricing proposal.

Table 5.1 below compares our draft decision on Essential Water's notional revenue requirement with its proposal.

Table 5.1 Draft decision on total notional revenue requirement for the 2026 determination period (\$ millions, \$2025–26)

	Essential Water's proposed total NRR	IPART's draft decision on total NRR
Operating allowance (excluding bulk water purchases)	102.2	98.0
Bulk Water purchases	138.8	148.5
Return on assets	56.3	55.4
Return of assets (depreciation)	33.6	32.1
Return on working capital	0.4	0.8
Tax allowance	1.6	0.5
NRR before adjustments	333.0	335.3
Cost of debt true-up	2.3	2.8
Gifted asset tax allowance true-up	22.7	0.0 ^a
NRR after adjustments	357.9	338.1

a. Our draft decision is that the gifted asset true-up be included in the RAB, rather than directly included in the NRR (see section 5.7). As a result the proposed gifted asset allowance is included through return on and return of assets. Source: Essential Water price proposal and IPART analysis.

The following sections outline our decisions on each of the building block components of Essential Water's notional revenue requirement – except operating expenditure, which is explained earlier in Chapter 3.

A full breakdown of our draft decisions on Essential Water's building blocks is provided in Appendix D.1.

5.2 Bulk water purchases

Our draft decision is:



- To set Essential Water's bulk water purchase costs as \$148.5 million over the 2026 determination period.

Essential Water sources most of its bulk water from the Murray River, via the Pipeline to its Mica Street water treatment plant.

We also set the prices WaterNSW can charge Essential Water for this service at the same time that we set Essential Water's prices.

Our draft decision on bulk water costs is based on Essential Water's forecast water sales, and prices from our Draft Determination for the Pipeline. Our draft allowance is \$9.7 million (7.0%) higher than proposed by WaterNSW, due to the higher WACC

We further discuss demand forecasts, and recovery of bulk water costs via the Pipeline in Chapters 3 and 6.

5.3 Return on assets

Our draft decisions are:



7. To set an allowance of \$55.4 million for the return on assets component of the notional revenue requirement, noting that:
 - a. The opening RAB for the 2026 determination period is \$204.0 million, and we added \$152.3 million of capital costs (net of depreciation) for the period.
 - b. 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 ensures businesses can continue to make efficient capital investments in the future. We calculate the return on assets by multiplying the value of the RAB over the determination period by an efficient rate of return.

We calculated a return on assets allowance of \$55.4 million for Essential Water over the 2026 determination period.

The opening value of the regulatory asset base over the 2026 determination period is \$204.0 million

The RAB represents the value of Essential Water's assets on which it should earn a return on capital and an allowance for depreciation. We calculated the opening RAB for the 2026 determination period by "rolling the RAB forward" from the previous determination period. To do this we:

- added \$50.5 million (nominal) of historical capital expenditure from the 2022 determination period, as discussed in Chapter 5.1, net of \$4.9 million of cash capital contributions
- deducted \$22.9 million for regulatory depreciation of assets and \$0.0 million of asset disposals
- added \$33.6 million to account for annual indexation of the RAB.

To calculate the RAB for each year of the 2026 determination period we then:

- added \$162.3 million of forecast capital expenditure, which is based on the efficient capital expenditure allowance set out in Chapter 4, net of \$8.8 million of cash capital contributions. Asset disposals of \$0.0 million are also deducted from the RAB
- added \$22.7 million for the value of the tax paid on assets contributed in 2019 that Essential Water did not recover at the time (including holding costs)

- deducted \$32.7 million for regulatory depreciation of assets.

Our calculations result in the RAB increasing from \$204.0 million on 1 July 2026 to \$356.3 million by 30 June 2031. Our full RAB roll forward calculations are shown in Appendix D.1.

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

As in previous reviews, we determined the rate of return using a WACC. We used our standard WACC approach¹⁰¹ to calculate a WACC of 3.6% for Essential Water's draft prices. This is higher than the 3.1% WACC that Essential Water used to calculate revenue requirement in its pricing proposal.

A full step-through of our WACC calculation is provided in Appendix C.

5.4 Return of assets (regulatory depreciation)

Our draft decision is:



8. To set the return of assets (regulatory depreciation allowance) as \$32.1 million.

We include an allowance for depreciation in the notional revenue requirement to ensure that the capital invested by Essential Water in its regulatory assets is returned over the useful life of each asset.^a

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 standard asset lives for any asset types. Appendix D.1 shows our draft decisions on asset lives for the 2026 determination period.

5.5 Return on working capital

Our draft decision is:



9. To set the return on working capital as \$0.8 million over the 2026 determination period.

^a The regulatory depreciation in the notional revenue requirement (\$32.1 million) is slightly lower than the amount deducted from the RAB (\$32.7 million), because the notional revenue requirement amount is a mid-year value (i.e. the RAB roll-forward depreciation figure is discounted by half a year of WACC). The purpose of this adjustment is to account for the timing of the business's cash flows.

The working capital allowance component of the notional revenue requirement represents the return the business could earn on the net amount of working capital it requires each year to meet its service obligations. It ensures the business recovers 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 2026 determination period represents the holding cost of net current assets.

5.6 Tax allowance

Our draft decision is:

-  10. To set the tax allowance as \$0.5 million over the 2026 determination.


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 Essential Water's actual tax liability over the determination period. Rather, it reflects the liability that a comparable commercial business would be subject to.

We calculated the tax allowance for each year by applying a 30% statutory corporate tax rate adjusted for franking credits to the business's (nominal) taxable income. We applied our standard methodology to set the tax allowance.

We note that the draft decision for tax allowance is only \$0.5 over the 2026 determination period. This is because Essential Water's actual tax depreciation is substantially higher than regulatory depreciation (since it uses the accelerated tax depreciation methodology). Combined with a large capital expenditure program, this means that Essential Water is expected to accumulate a tax loss over the period, which will be carried over to the next determination period.

5.7 Revenue adjustments

Our draft decision is:

-  11. To make the following revenue adjustments to Essential Water's notional revenue requirement over the 2026 determination period:
- a. \$2.8 million for the cost of debt true-up.
12. To make the following adjustments to Essential Water's RAB over the 2026 determination period:
- a. \$22.7 million for the tax on assets-free-of-charge true-up.

Demand volatility adjustment mechanism (DVAM) true-up

Under the price cap approach, we use a demand volatility adjustment mechanism (DVAM), to adjust for any over- or under-recovery of revenue resulting from actual demand being different to forecasts. The DVAM protects businesses from under-recovery due to lower than forecast water sales and protects customers in the case of any over-recovery through bills.

In 2022, we set the DVAM threshold at $\pm 5\%$ for Essential Water.¹⁰² This means Essential Water is only able to recover the difference between its actual sales and forecast demand, *if* the difference is greater than $\pm 5\%$ over the price determination period. This 5% threshold incentivises businesses to accurately forecast and manage water sales. We make DVAM adjustments in the pricing period *after* the differences have occurred.

Over the 2022 determination period, Essential Water's actual demand was 21,092 ML, compared with forecast of 20,317 ML, a variance of 3.8%.¹⁰³ Consequently, Essential Water did not propose to include an adjustment related to the DVAM and our draft decision aligns with that position.

Cost of debt true-up

Our 2018 review of the WACC method 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.¹⁰⁴ In our 2018 WACC methodology, we decided that 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.¹⁰⁵

We have made a draft decision to use a true-up approach for changes to the cost of debt, consistent with our approach in Essential Water's 2022 price determination. We consider this to reduce 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 2022 price period of \$2.8 million. Our draft decision is to include this true-up as an adjustment to Essential Water's 2026 determination period revenue requirement.

Tax on assets-free-of-charge (AFOC) true-up

Current tax law requires water businesses to pay tax on AFOC. Under the National Tax Equivalent Regime (NTER) administered by the Australian Tax Office, NSW State Owned Corporations, including Essential Energy (who Essential Water are part of), pay these tax obligations to NSW Treasury. AFOC is included in our regulatory tax allowance building block of the NRR.

On the commissioning of the Wentworth to Broken Hill pipeline in 2018-19, Essential Water was gifted around \$60 million of assets (including a solar farm, generator, pipes, water tanks, pumps, motors, building).¹⁰⁶ This led to an actual net tax liability of around \$13 million which was paid in that financial year. Essential Water did not seek, and IPART did not include a tax allowance in our 2019 and 2022 determinations on the basis that it does not routinely receive AFOC and so was not aware of this pricing proposal element.

Essential Water has proposed that IPART allow recovery of the trued-up tax on these AFOC over the 2026 determination period as a \$22.7 million adjustment to the NRR in 2026-27. This figure includes the original sum adjusted for inflation and holding costs using prevailing pre-tax WACC.¹⁰⁷

Our draft decision is to allow recovery of the value of the historical tax paid on AFOC as a capital adjustment to the RAB aligned to the economic life of the assets.

Chapter 6 >>

Price setting

06

Summary of draft decisions on price setting

We adopted Essential Water's forecast of its demand for 2026-31 and proposal to maintain the DVAM at a $\pm 5\%$ threshold

With the population in and around Broken Hill projected to change by less than 0.2%, and water demand following a flat trend, our draft decision is to adopt Essential Water's forecast customer numbers and demand.

We additionally agree with Essential Water that its current arrangements to manage revenue volatility are appropriate to continue. This threshold means that Essential Water only recovers the difference between actual and forecast demand if it is greater than 5% (above or below forecast).

We propose to set maximum prices for residential customers who use 200 kL of water annually capped at 5% annually plus inflation

Our draft decision is to set water and wastewater charges so that residential bills increase by an annual average of 5% (this results in a 4.7% price increase plus inflation for a typical household). We consider that full cost recovery charges are not affordable for residential customers, particularly those experiencing vulnerability.

Our draft decisions for non-residential prices set full cost recovery charges for non-residential customers, with the additional required revenue collected through annual service charges

We are seeking feedback on options to meet the gap in required revenue for Essential Water

Our draft decision on maximum prices results in a funding shortfall of \$12.6 million over 5 years for Essential Water.

We are consulting on ways in which that funding gap might best be met including:

- a government Community Service Obligation (CSO) to support affordability
- an effective capital grant as a contribution to the Essential Water RAB
- redirecting the existing Pipeline subsidy.

This chapter sets out our approach to assessing Essential Water's proposed:

- forecast demand
- approach to managing revenue volatility for the 2026 determination period
- price control
- price structure.

These elements inform the draft prices that we set, as outlined in Chapter 7.

In this chapter we discuss feedback from stakeholders and our assessment of the social impacts of current prices on Essential Water's customers, as required under section 15(1)(k) of the IPART Act. We have proposed to make decisions on price structures that we consider minimise social impacts by capping price increases for residential customers.

While sections 15(1)(a) and 15(1)(e) of the IPART Act requires the Tribunal to consider the cost of providing services and the need for greater efficiency in the supply of services, there is a countervailing consideration for social impact in section 15(1)(k):

- Affordability was the key concern of customers as part of IPART's Issues Paper consultation and Public Hearing.
- The NSW Chief Health Officer has written to the Tribunal Chair, highlighting affordability concerns and their connection to health in Broken Hill.

6.1 Water Demand

Our draft decisions are:



13. To adopt Essential Water's water demand forecast for the 2026-31 determination period.



14. To maintain Essential Water's $\pm 5\%$ Demand Volatility Adjustment Mechanism (DVAM) materiality threshold for the 2026-31 determination period.

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 set prices using forecasts of:

- the number of customers we expect would receive water services in each year of the 2026 determination period (forecast connections)
- the volume of water we expect a water business would provide in each of those years (forecast water sales volumes).

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

There are many factors that impact water demand including:

- 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
- environmental factors including a changing and more variable climate

Essential Water considers these factors in its modelling to forecast demand.

We note that water demand over the 2022 determination period was 4.9% higher than forecast. Essential Water explains this difference as the result of a reduction in rainfall and so higher demand.¹⁰⁸

6.1.1 We adopted Essential Water's forecast sales volumes

Essential Water forecasts that demand will remain steady (from 4,462 ML in 2025-26 to 4,469 ML in 2030-31 for treated water and remain at 46 ML for chlorinated water and 916 ML for untreated water).¹⁰⁹ It also forecasts wastewater to remain steady at 2023-24 to 2024-25 levels.¹¹⁰

Essential Water used NSW Department of Planning projections, that include an increase in dwellings by an average of 6 per annum and no change in non-residential customers.¹¹¹

The owner of a local business suggested including additional demand associated with a proposed project (Hydroster's Silver City Energy Storage Project).¹¹² We consider that any water requirements are uncertain, would commence late into the determination period, and are unlikely to trigger the demand volatility adjustment mechanism. As a result, we have not included it in the demand forecast.

Essential Water has indicated it did not include the project as the water requirement and timing is too uncertain, and most of the demand would be for untreated water with no wastewater, and so it is unlikely to impact expenditure which is shared with other water users in terms of fixed costs.

¹¹³

We consider that to continue to refine and improve its demand forecasts, Essential Water should develop an approach to include a price elasticity adjustment to its future forecasts.

Our draft decision is to adopt Essential Water's proposed demand forecast, as set out in Table 6.1.

Table 6.1 Draft decision on forecast water sales volumes (ML)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Sales (ML) ^a	5,424	5,426	5,427	5,429	5,430	5,432
Demand (ML) ^b	6,385	6,387	6,389	6,390	6,392	6,394

a Water sold to customers, including treated, chlorinated and untreated water

b Total demand including sales volumes, unbilled water usage, losses, etc.

Source: IPART analysis

6.1.2 Demand volatility adjustment mechanism (DVAM)

We use DVAM as a tool to account for uncertainty. DVAM allows for an adjustment to a business's NRR to account for over or under-recovery of revenue due to material differences between forecast and actual water sales over the previous determination period. The DVAM protects businesses from under-recovery due to lower than forecast water sales and protects customers in the case of over-recovery. In 2022, we set the DVAM threshold at $\pm 5\%$ of forecast revenue from water sales, meaning an adjustment is only made if the difference between actual sales and forecast demand is greater than 5%.

Our draft decision is to keep in place the same arrangement as the 2022 determination, a $\pm 5\%$ threshold for the DVAM.

6.2 Price structure and price control

Our draft decision is:

15. To set prices on the basis that the NSW Government will fully subsidise Essential Water's bulk water transportation costs associated with the WaterNSW Pipeline.
16. To continue with the price cap approach to regulation.
17. To continue using current price structures for:
 - a. setting the water usage charge with reference to long-run marginal cost of water supply
 - b. setting the wastewater usage charge with reference to the short-run marginal cost of wastewater supply
 - c. setting fixed service charges on a full cost recovery basis for non-residential customers.
18. To set maximum service charges for residential customers which cap total bill increases for customers using 200 kL a year at an annualised 5% on average (plus inflation).
19. To maintain our current approach for setting the wastewater service price for the mines by aligning the proportion of their total wastewater charges paid alongside use as part of a fixed charge.

6.2.1 WaterNSW Pipeline costs are assumed to be met by NSW Government

NSW taxpayers currently subsidise water prices in Broken Hill to offset the significant cost of building the Pipeline. When we set prices for Essential Water in 2019, the NSW Government committed to subsidising Essential Water's prices for 4 years, so prices would not increase as a result of the Pipeline.¹¹⁴ This approach was continued in 2022,¹¹⁵ and our understanding is that this arrangement is to continue through the 2026 determination period.

On that basis, our draft prices are based on the assumption that Pipeline costs would be funded by a subsidy from the NSW Government. We estimate the value of the total bulk water subsidy to be \$148.5 million over the 2026 determination period.

Stakeholders continue to express concern that the subsidy does not involve certainty beyond any particular pricing determination, and that they will be subject to large price increases.¹¹⁶ This is especially the case for stakeholders who do not consider the Pipeline was constructed for their benefit.¹¹⁷

In our 2022 pricing review we acknowledged these concerns. We also recommended that Essential Water work with NSW Government to explore options to provide customers with greater long-term certainty about the status of the Pipeline subsidy and to reflect this in its next pricing proposal.¹¹⁸

We continue to recommend Essential Water work with NSW Government to explore options to provide customers with greater long-term certainty about the status of the Pipeline subsidy.

Draft recommendations



1. We recommend the NSW Government fully fund the \$148.5 million which Essential Water will need to purchase bulk water from WaterNSW, to continue to manage the affordability of Essential Water's bills.

6.2.2 We propose to continue to use a price cap approach to regulation

In line with our water regulation framework, water businesses can propose a form of price control that is in their customers' interest. Also in our framework is that the regulatory period lasts for 5 years. Essential Water has proposed to maintain its current form of control, which is a price cap.¹¹⁹ A price cap approach has some important benefits, such as:

- maintaining consistent revenue streams to support the business's operations
- providing predictable prices to customers.

Further information on price controls and the different forms is available in section 4.7.3 of the [Water Regulation Handbook](#).

Our draft decision is to continue with a price cap approach for the 2026 determination period.

6.2.3 Water price structure

Our draft decision aligns with Essential Water's proposals regarding price structure, that is a fixed or service charge and a water usage charge.

Essential Water has explained that it considers its proposal to increase the fixed service charge and keep the water usage charge constant appropriately balances cost-reflectivity, equity, administrative efficiency, price stability and customer preferences. Essential Water has also proposed to continue transitioning the untreated water usage price for Essential Water Pipeline customers towards the standard untreated water usage price over the 2026 determination period.¹²⁰

Essential Water submitted its Customer Panel was not in favour of reducing the water usage price to encourage water consumption to help mitigate the health risks associated with lead dust. Essential Water stated its proposal to maintain rather than increase the usage charge recognises the role of water consumption in managing lead dust.¹²¹

Feedback to our Issues Paper showed that customers disagreed with Essential Water's proposal to recover most of its additional costs through the fixed water service charge rather than water usage charges and that this doesn't allow households to reduce their bills by lower water usage.¹²²

Stakeholders also highlighted the importance of water pricing in encouraging water use to mitigate the health impacts associated with lead dust, particularly the health and development impact on children associated with lead dust.¹²³

We further considered health impacts, including advice from the NSW Chief Health officer that:

- The [Lead Smart website](#) advises washing down outside play equipment and toys regularly, and, after windy or dusty days, wipe down windows, door screens, verandahs, play equipment and other outdoor surfaces with a wet cloth or mop.
- Far West Local Health District (LHD) has advised that when remediating houses, they recommend that people remove and/or cover backyard soil with mulch material rather than developing gardens and watering. Some households have also used artificial turf to cover backyards.
- Increases to water pricing is likely to lead to further equity and affordability issues. Maari Ma Health Aboriginal Corporation is concerned that increases will disproportionately impact Aboriginal households in Broken Hill.
- Evaporative air conditioners are also used in Broken Hill and contribute to increased water usage during summer – which is important for the health of residents.

We considered Essential Water's Long Run Marginal Cost (LRMC) and Short Run Marginal Cost (SRMC). LRMC is an estimation of the additional cost of providing an additional unit of water or wastewater. We use LRMC as a key reference point to set usage prices, as prices that relate to LRMC will promote efficient consumption.

We typically set water usage prices with reference to the LRMC of water supply in price reviews where future growth and water augmentation is expected. In the 2019 review, we noted that, following construction of the Pipeline, no further large-scale augmentation of the water supply was foreseeable in the future for Broken Hill. Therefore, we considered the LRMC and SRMC estimates should converge.

Our draft prices hold water usage charges constant for treated water

Our draft decision aligns with Essential Water's proposal to hold the treated water usage charges of \$2.25 per kL constant over the 2026 determination period (before inflation). This means it would increase by the rate of inflation only.

This draft decision reflects our preference for setting usage prices with reference to the marginal cost of supply, as well as mitigating health impacts associated with water use and suppression of lead dust.

Essential Water also supplies chlorinated water to customers in Silverton and Sunset Strip, and untreated water to a small number of customers along the Menindee, Stephens Creek and Umberumberka pipelines, as well as to other customers such as Broken Hill City Council and the mines. These customers currently pay different usage prices. Our draft decisions move these prices closer to a single usage price, which better reflects the cost of supplying untreated water.

The 10-year transition has been ongoing¹²⁴ but alignment will be achieved in 2028-29.

We have calculated full cost recovery prices for water service charges

Essential Water did not propose changes to its current price structures, in that the remainder of the revenue requirement would be met in the fixed service charges. This results in an increasing proportion of revenue from water service charges, as opposed to water usage charges under full cost recovery prices (see Table 6.2).

Table 6.2 Share of water revenue recovered from the service charge under full cost recovery prices (\$2025-26)

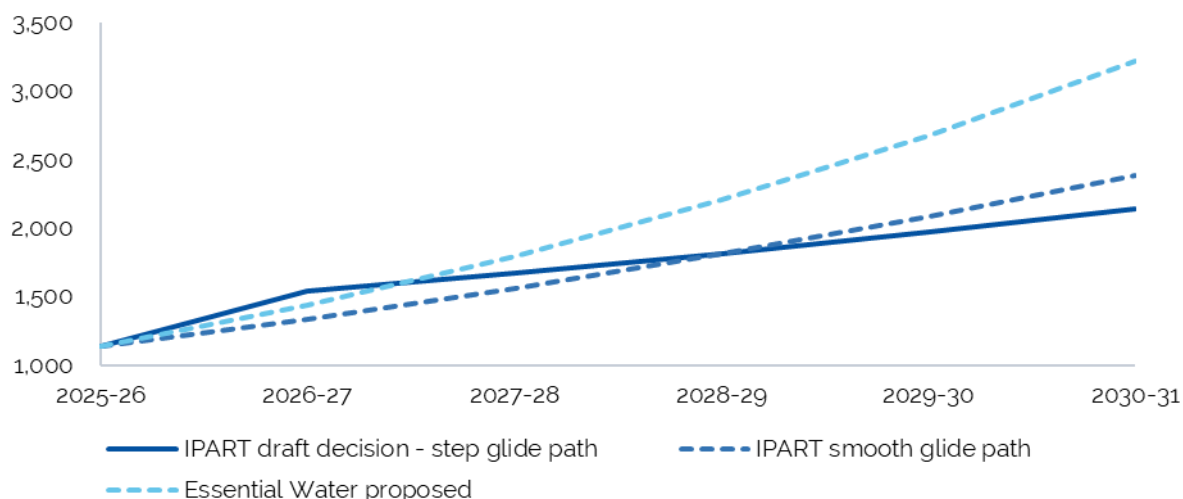
	Current 2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Revenue from water service charge	8.7	13.2	13.7	14.2	14.8	15.3
Target Revenue for Water	20.7	25.3	25.8	26.3	26.8	27.4
Share of water revenue recovered from water service charge	42.0%	52.4%	53.3%	54.2%	55.1%	56.0%

We also considered Essential Water's proposed price structure which increases average prices every year at a constant rate (smooth glide path), or a larger increase in year 1 followed by smaller increase in the subsequent years (step glide path).

A smooth glide path results in year 5 prices that substantially over-recover the required revenue for that year.^a Over-recovery could lead to price instability between regulatory periods, however a larger increase in year 1 with subsequent smaller increases does not cause the same issue.

^a The smooth glide path results in an effective (real post-tax) rate of return of 4.8%, compared to 3.7% under our recommended price path. The draft WACC is 3.6%

Figure 6.1 Comparison of water and unadjusted wastewater service charges under full cost recovery with step glidepath and smooth glidepath



On balance, our draft decision is to adopt the step glide path as opposed to the smooth glide path on the basis that it results in a lower and more cost-reflective price in year 5.

Our draft decision is to cap prices below full cost recovery levels for residential customers

Essential Water's proposed prices resulted in an annual average increase of 15% for the bill of a typical residential customer^b, or a total increase that more than doubles water prices. These increases become more pronounced for residential customers who consume less than the average water volumes

While our draft decisions on expenditure relieve some of the bill pressure for Essential Water customers, overall bill impacts are still significant and a full cost recovery price (excluding bulk water charges) for a typical household would increase by 48% (plus inflation) by 2030-31. As discussed in Chapter 8, we do not consider these prices to be affordable and that they would have a negative social impact on Broken Hill.

The preferred approach for assisting customers experiencing financial vulnerability is by direct transfer payments to those who need support. Such an approach can consider the range of expenses those customers face and provide more targeted support.

However, we consider it appropriate to set prices below full cost recovery to support affordability for residential customers. 200 kL was used as the basis for affordability analysis rather than 250 kL, as a customer experiencing vulnerability may reduce water usage to save money.

^b A typical household reflects a residential – treated water – non pensioner with an estimated average water demand of 250 kL per year.

Measures using a higher water use as a basis would lead to larger price increases on a proportional basis for customers experiencing vulnerability.^c

We describe these customers through this report as modest water users, or households with modest water use.

Our draft decision caps bills for residential customers using 200 kL annually to 5% annual increases before inflation

We considered a range of pricing options to address the affordability concerns, including financial impacts, and our draft decision is to set charges which result in an overall bill impact of 5% as an annual average for householders with an annual water usage of 200 kL. As noted above, this means a typical household (using 250 kL) would see prices increase by an annual average of 4.7%.

This approach limits the number of customers paying above a 3% water stress threshold to under 30% (further affordability discussion is included in Chapter 8). It also allows greater flexibility to transition prices to full cost recovery under a slower pathway at a future determination.

We note that this approach does not allow Essential Water to fully recover its target revenue over the 2026 Determination period, and we discuss options for addressing the shortfall below.

We have included prices in Chapter 7 in accordance with our affordable approach, but additionally include the prices under a full cost scenario in Appendix E.

6.2.4 Wastewater charges

Essential Water's proposed fixed service charges for wastewater are calculated as a residual after accounting for revenue from wastewater usage prices and trade waste prices. Service charges are based on water meter sizes (adjusted for discharge factors) because they are a readily available indicator of a customer's draw on the capacity of the supply network:

- Residential customers pay a fixed service charge which is comprised of a base level service charge and a deemed discharge amount (wastewater usage price x deemed volume of residential discharge to the wastewater network, which is 100 kL per annum).
- Non-residential customers pay a fixed service charge based on their meter size adjusted for each customer's discharge factor set with reference to a 20 mm meter (the service charge for each customer is scaled up from the base 20 mm meter charge to reflect the actual size of their meter, before a discharge factor is applied).
- Mines pay a fixed service charge equivalent to that of a 100 mm meter, with a 100% discharge factor.¹²⁵

^c That the relationship between usage amount and bill impact scale inversely highlight the difficulty in utilising water prices to manage social impacts of the cost of essential services in the context of Broken Hill. A typical household is different for different water businesses. For instance, Sydney Water have a typical house consumption at 200 kL per year

Non-residential customers and mines also pay a wastewater usage charge for actual discharges to the wastewater network. This is measured by applying their discharge factor to their metered water consumption (discharge factor x volume of water used).¹²⁶

The effect of our draft decisions is to:

- hold wastewater usage charges constant over the 2026 determination period and continue with Essential Water's current approach and use the deemed discharge amount for residential service charges
- maintain Essential Water's approach to wastewater charges for mines given the uncertain nature of the mines' wastewater usage and projected constant sales¹²⁷
- calculate the service charge as a residual based on water meter size and discharge factors to recover the remainder of the revenue required
- adopt a 'step glide' path and set draft prices for non-residential customers on a full cost recovery basis
- set draft prices for residential customers so that overall bill increases for households with modest water use will not exceed an annual average of 5% over the determination period.

Our draft decision is to continue the current approach to setting prices for mining customers

Our draft decision is to maintain our current approach for setting the water service price for mining customers on the basis that it reflects the impact mining customers has on the costs of water infrastructure and delivery.

This involves increasing the water service supply charge for each of the mines in proportion to the non-residential 20 mm water service supply charge.

6.2.5 We are seeking stakeholder feedback on our draft pricing approach

We are seeking stakeholder feedback on our draft decisions:

- to keep the water and wastewater usage prices constant given the unique circumstance of lead dust in Broken Hill and water's role in mitigating the health risks associated with it
- to adopt a 'step glide' path which increases prices more quickly in year 1 of the determination period, but results in a lower price in year 5
- to set full cost recovery prices for non-residential customers, with the additional required revenue collected through annual service charges
- to cap charges so that the overall bill impact for residential customers using 200 kL of water annually is 5% plus inflation.

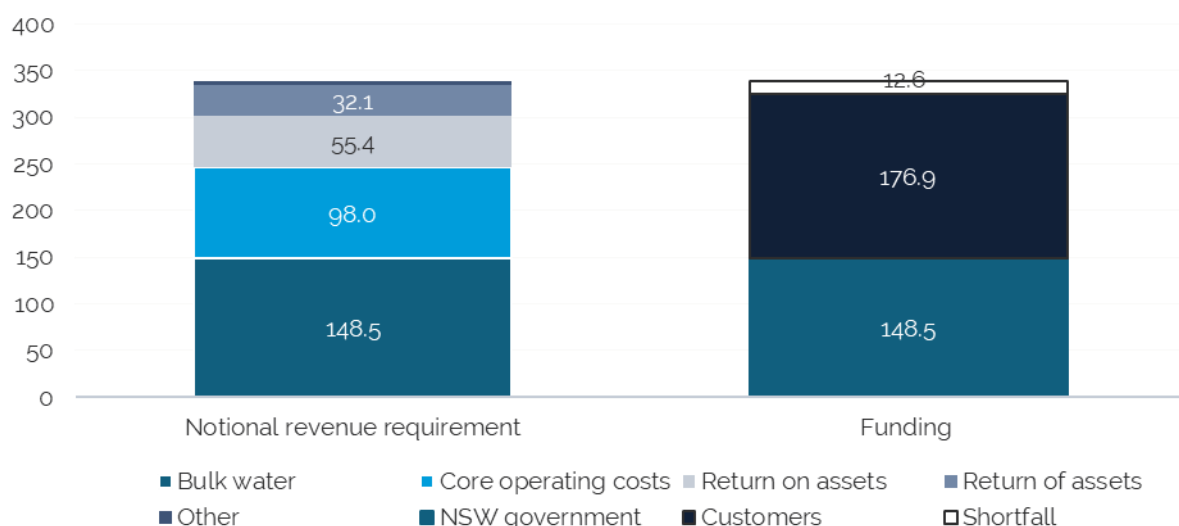
Seek Comment

4. What do you think of our draft decision to keep water usage prices constant and increase the fixed service charge, in the context of using water to manage lead dust in Broken Hill?
5. Do you prefer a larger step increase in bills in 2026-27 with smaller increases in future years? Or do you prefer a smooth glide path increase in bills where bills would be lower in 2026-27 and higher in 2030-31?
6. Is it feasible to set non-residential prices (including mines) at a level which recovers their share of efficient costs (excluding Pipeline costs), and to cap price increases at a lower level for residential customers?
7. Do you support capping price increases at an annual average of 5% (plus inflation) for residential customers who use 200 kL of water annually?

6.2.6 The draft pricing approach leads to a funding shortfall of \$12.6 million

We acknowledge that in setting our draft prices below full cost-reflective levels, Essential Water will not be able to recover full efficient costs through prices. Under our draft pricing approach, the shortfall is estimated at \$12.6 million (plus inflation) over the next 5 years.

Figure 6.2 Notional revenue requirement and funding sources (\$million, \$ 2025-26)



Source: IPART analysis

We consider this outcome to reflect a reasonable balance of the considerations under section 15(1) of the IPART Act, particularly the social impacts of the determinations and recommendations (section 15(1)(k)) alongside the appropriate rate of return on public assets (section 15(1)(c)).

There are funding options to meet the shortfall between cost-reflective prices, and our draft prices

We have considered a range of options by which the funding shortfall may be met. These include further direct subsidies, grants or reallocation of existing subsidies:

- Asking government to contribute to Essential Water's efficient costs through a Community Service Obligation (CSO) payment is the most straightforward approach to funding the shortfall but may result in 2 subsidies without ongoing commitments from 2031.
- A capital grant is more expensive upfront, is less flexible and makes it more difficult to allocate efficient costs for monopoly water services, but provides longer term certainty. We estimate for the draft funding gap of \$12.6 million, an upfront grant of around \$86 million would be required.^d
- Re-targeting the existing subsidy (for water transportation costs to all customers via the Pipeline) towards residential customers would be revenue neutral to government. All non-residential customers, or alternatively mining customers only would experience steeper price increases to accommodate this, as their bills more closely reflect water transportation costs via the Pipeline. We note this approach may un-link the purpose of existing subsidies and would result in significant price increases for mining businesses.

Some of the pros and cons of these approaches are summarised below in Table 6.3.

Table 6.3 Funding shortfall options

Funding option	Pros	Cons
Government CSO to support affordability	<ul style="list-style-type: none"> • Explicit and direct payment makes contribution amount transparent • Greater flexibility after 2031. 	<ul style="list-style-type: none"> • No certainty for customers afraid of affordability concerns past 2031.
An effective capital grant as a contribution to the Essential Water RAB	<ul style="list-style-type: none"> • Longer term price relief for customers (until asset renewal). 	<ul style="list-style-type: none"> • Large up-front outlay • Grants are subject to tax • Efficient costs may be obscured in the building block model • Changing WACC means impacts post 2031 are not completely predictable.
Redirecting the existing Pipeline subsidy	<ul style="list-style-type: none"> • More accurate price signal for large industrial businesses regarding water use • No additional funding required by NSW Government (above existing assumed subsidy amount). 	<ul style="list-style-type: none"> • Inconsistent pricing approach between industrial businesses and other non-residential customers • Large and immediate price increases for impacted businesses • Repurposing existing subsidies may un-link existing subsidy from its intended purpose.

Source: IPART analysis

We present these options for comment ahead of our Final Report, where we may make a recommendation to government on a funding approach, and/or set different prices to accommodate the preferred funding approach. We seek feedback on those, as well as any other suggested approaches.

^d We note that grants are typically subject to taxation, and have estimate the contribution required on that basis (i.e. we included tax liability in the estimated contribution).

Seek Comment



8. What do you consider is the most appropriate method to fund the gap between full cost recovery prices and IPART draft prices?

Chapter 7 >>

Draft prices

07

Summary of draft prices

Maximum water prices would increase over the 2026 determination period

Under our draft decisions, the draft water usage price would not increase between current prices in 2025–26 and the last year of the determination in 2031–31 except by inflation. At \$2.25, this is consistent with Essential Water's proposal.

The draft fixed water service charge would increase by around 38.1% over the same period for residential customers and 76.0% for non-residential customers. It will be 57.4% to 45.6% lower than Essential Water's proposal by 2030-31 respectively.

This is partly due to us identifying cost efficiencies in Essential Water's operations (see Chapters 3 and 4), and partly because we propose to cap the overall price increase for residential customers who consume 200 kL annually to 5%.

We outline in Chapter 8 why we consider this price structure to be in the customers interests and are consulting on different price structures.

Maximum wastewater prices would increase over the 2026 determination period

Under our draft decisions the wastewater service charge would increase by around 40.1% over the same period for residential customers and 94.7% for non-residential customers

We set the draft wastewater fixed service charge to recover Essential Water's remaining efficient costs, which are around 36.7% to 25.1% lower by 2030-31 than Essential Water's proposal respectively.

There are minor changes to trade waste and miscellaneous charges

Our draft decisions adopt Essential Water's proposed minor changes to miscellaneous charges so that they reflect the actual costs of delivering the services. Further, some trade waste charges have been updated to reflect contemporaneous departmental advice from DCCEEW.

Essential Water currently provides 2 main services to customers:

- water services
- wastewater services.

Essential Water's prices for water services has 2 components:

- a variable usage price (expressed as dollars per kilolitre of metered water supplied)
- a fixed service price (expressed as dollars per year).

Customers pay a different water usage price if they receive treated water, chlorinated water or untreated water. This reflects the different costs involved in supplying these different types of water services to customers. Under our draft decisions, usage charges for untreated and chlorinated water will align with each other by the third year of the determination.

For Essential Water's wastewater services:

- Residential customers pay a fixed service price, which is the same for houses and apartments. It comprises an access charge and a deemed wastewater usage charge.
- Non-residential customers pay a fixed service price based on their meter size, and a variable usage price for actual discharges into the wastewater system.^a

Essential Water provides some recycled water services, which are not price regulated (under our draft decisions).

We have also set prices for Essential Water's trade waste services.

This chapter sets out the proposed maximum prices for Essential Water's regulated services under our draft decisions.

Our draft decisions are:



20. To set Essential Water's maximum water usage charges as shown in Table 7.1.

21. To set Essential Water's maximum water service charges as shown in Table 7.2 for residential customers and Table 7.3 for non-residential customers.

22. To set Essential Water's maximum usage charge for wastewater as shown in Table 7.5.

23. To set Essential Water's wastewater service charges as shown in:

- Table 7.6 for residential customers.
- Table 7.7 for non-residential customers.

^a The service price for each customer is scaled-up from the base 20 mm meter price to reflect the actual size of their meter before a discharge factor is applied.

7.1 Draft decisions on maximum water and wastewater prices

7.1.1 Water charges

The tables below present our draft decisions on maximum fixed and variable prices for water. These prices are in \$2025-26, which means they will be adjusted for inflation from 2026-27 onwards.

Water usage charges increase by inflation only

Treated water charges would increase only with inflation, as our decision is to hold the water usage charge at \$2.25/kL and increase only by inflation.

Untreated – EW Pipeline water would increase gradually from \$1.67 to \$1.97/kL, to match the existing (and unchanged) prices for untreated non-pipeline water, and chlorinated water.^b

As discussed in Chapter 6, we consider the proposed water usage charge effectively balances the SRMC as well as health impacts and assumed continuation of the Pipeline subsidy.

Table 7.1 Draft water usage charges (\$/kL, \$2025-26)

	Current 2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Treated	2.25	2.25	2.25	2.25	2.25	2.25
Chlorinated	1.97	1.97	1.97	1.97	1.97	1.97
Untreated – EW Pipeline	1.67	1.77	1.87	1.97	1.97	1.97
Untreated – Non-pipeline	1.97	1.97	1.97	1.97	1.97	1.97

Draft water service charges proposed to be capped for residential customers

As a consequence of our affordability analysis and discussion in Chapter 8 our draft decisions set water bills for residential customers so that the overall bill impact for modest water users is an average annualised increase of 5% for the combined water and wastewater bill.

With water usage charges proposed to be held constant before inflation, this results in an overall increase for residential service charges of 38.1% and 76.0% for non-residential by 2030-31.

^b This refers to the Essential Water Pipeline, from Menindee, and not the WaterNSW Pipeline from Wentworth.

Table 7.2 Draft water service charge for residential customers (\$2025-26)

	Current 2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	% Change 2025-26 to 2030- 31
Essential Water proposed	409.39	547.16	704.55	884.43	1,090.54	1,326.01	223.9%
Annual change (%)	N/A	33.7%	28.8%	25.5%	23.3%	21.6%	N/A
IPART draft price	409.39	489.90	509.41	528.42	547.14	565.33	38.1%
Annual change (%)	N/A	19.7%	4.0%	3.7%	3.5%	3.3%	N/A

Table 7.3 Draft water service charge for non-residential customers (\$2025-26)

	Current 2025-26)	2026-27	2027-28	2028-29	2029-30	2030-31	% change 2025-26 to 2030-31
Essential Water proposed							
20 mm	409.39	547.16	704.55	884.43	1,090.54	1,326.01	223.9%
Other sizes	$\frac{(\text{Meter size in mm})^2 \times \text{wastewater service charge for a 20mm Meter for the applicable Period}}{400}$						
Annual change (%)	N/A	33.7%	28.8%	25.5%	23.3%	21.6%	N/A
IPART draft price							
20 mm	409.39	624.05	647.23	670.88	695.55	720.72	76.0%
Other sizes	$\frac{(\text{Meter size in mm})^2 \times \text{wastewater service charge for a 20mm Meter for the applicable Period}}{400}$						
Annual change (%)	N/A	52.4%	3.7%	3.7%	3.7%	3.6%	N/A

Table 7.4 Draft water service charge for mining customers (\$'000, \$2025-26)

	Current 2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	% Change 2025- 26 to 2030-31
Essential Water proposed							
Perilya Ltd.	2,875.55	3,843.24	4,948.71	6,212.19	7,659.90	9,313.83	223.9%
BHM Ltd.	693.62	927.04	1,193.70	1,498.47	1,847.68	2,246.63	223.9%
IPART draft price							
Perilya Ltd.	2,875.55	4,383.28	4,546.10	4,712.26	4,885.55	5,062.31	76.0%
BHM Ltd.	693.62	1,057.31	1,096.58	1,136.66	1,178.46	1,221.10	76.0%

7.1.2 Wastewater charges

Wastewater usage charges are proposed held at real levels

As with water service charges, our draft decision is to maintain the existing wastewater usage charge in real terms for the 2026 determination period. That is, a deemed usage charge of \$160.00 for residential customers and a charge of \$1.60/kL for non-residential customers.

Table 7.5 Draft wastewater usage charge – non-residential customers (\$/kL, \$2025-26)

	Current 2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Essential Water proposed	\$1.60	\$1.60	\$1.60	\$1.60	\$1.60	\$1.60
IPART draft prices	\$1.60	\$1.60	\$1.60	\$1.60	\$1.60	\$1.60

Note: These prices are to be maintained over the 2026 determination period in nominal terms.

The draft wastewater service charge is set to recover the remaining revenue requirement and recover efficient costs.

As discussed above in relation to water prices, our draft decisions set wastewater bills for residential customers so that the overall bill impact for residential customers is an average annualised increase of 5% for the combined water and wastewater bill.

Table 7.6 Draft wastewater charges for residential customers (\$2025-26)

	Current 2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	% Change 2025-26 to 2030- 31
Essential Water proposed							
Deemed usage charge	160.00	160.00	160.00	160.00	160.00	160.00	0.0%
Service charge – adjusted	492.33	606.91	739.91	894.65	1,074.68	1,284.15	160.8%
Total charge	652.33	766.91	899.91	1,054.65	1,234.68	1,444.15	121.4%
Annual change (%)	N/A	17.6%	17.3%	17.2%	17.1%	17.0%	N/A
IPART draft decision							
Deemed usage charge	160.00	160.00	160.00	160.00	160.00	160.00	0.0%
Service charge – adjusted	492.33	487.40	547.26	611.58	680.37	754.06	53.2%
Total charge	652.33	647.40	707.26	771.58	840.37	914.06	40.1%
Annual % change	N/A	-0.8%	9.2%	9.1%	8.9%	8.8%	N/A
Difference (%)	0.0%	-15.6%	-21.4%	-26.8%	-31.9%	-36.7%	N/A

Table 7.7 Draft unadjusted wastewater service charges for non-residential customers (\$2025-26)

	Current 2025- 26	2026-27	2027-28	2028-29	2029-30	2030-31	% Change 2025-26 to 2030-31
Essential Water proposed							
20 mm	726.20	892.51	1,088.10	1,315.66	1,580.42	1,888.46	160.0%
Other sizes	$\frac{(\text{Meter size in mm})^2 \times \text{wastewater service charge for a 20mm Meter for the applicable Period}}{400}$						
Annual change %	N/A	22.9%	21.9%	20.9%	20.1%	19.5%	N/A
IPART draft prices							
20 mm	726.20	913.03	1,022.52	1,141.86	1,271.94	1,413.71	94.7%
Other sizes	$\frac{(\text{Meter size in mm})^2 \times \text{wastewater service charge for a 20mm Meter for the applicable Period}}{400}$						
Annual change %	N/A	25.7%	12.0%	11.7%	11.4%	11.1%	N/A
Difference (%)	0.0%	2.3%	-6.0%	-13.2%	-19.5%	-25.1%	N/A

7.2 Our draft decision is to continue to not set recycled water prices

Our draft decisions are:



24. To continue not setting recycled water prices.

25. To deduct 50% of the revenue received from recycled water sales from Essential Water's notional revenue requirement for regulated services.

We have made a draft decision to continue not setting recycled water prices, as well as deducting 50% of the revenue from recycled water sales from the Essential Water's NRR for regulated services.¹²⁸

Essential Water supply recycled water (or effluent water) to a small number of customers for non-potable uses, following treatment of wastewater.

Prices for recycled water are presently not regulated on the basis that services are provided to customers voluntarily, and the customer could choose to purchase regulated water services instead. 50% of the revenue from recycled water sales is deducted from the NRR for regulated services.¹²⁹

In 2019 IPART undertook a review of pricing arrangements for recycled water and other services. In its review, IPART changed the regulatory framework for utilities for recycled water services and encouraged unregulated pricing agreements for utilities to charge for recycled water in most settings.¹³⁰

7.3 Our draft decision is to maintain the current price structures for unmetered properties and unconnected properties

Our draft decision is:

- 26. To maintain the current price structures for unmetered properties but to apply residential and non-residential charges aligning with the type of customer.
- 27. To maintain the current price structures for unconnected properties.

Our draft decision is to broadly accept Essential Water's proposal and maintain the current price structures for unmetered properties and unconnected properties in the upcoming determination period.¹³¹

7.3.1 We have made a draft decision to broadly maintain the current price structure for unmetered properties

Consistent with our pricing principles, unmetered residential and non-residential properties should pay the standard residential water and wastewater service price^c, plus a deemed level of water consumption.

Essential Water proposed to maintain the existing structure, which is that unmetered residential and non-residential customers are subject to:

- the standard residential water service charge
- a water usage price for a deemed consumption of 300 kL per year, for the applicable water quality
- the standard residential sewerage charge (which includes a deemed discharge of 100 kL per year).¹³²

As the average level of residential water consumption was 230kL per year in the 2022 determination period¹³³, our draft decision is to maintain the deemed consumption amount at 300 kL per year for unmetered properties. By setting the deemed consumption amount higher, this may provide an incentive for small water users to have a meter installed.

^c The standard residential wastewater service price includes a deemed discharge allowance of 100 kL per year.

As our draft prices now use different charges for residential and non-residential customers, our draft decision on unmetered properties is to apply the respective charges at the 300 kL deemed consumption. Essential Water advise there are only 2 unmetered properties and they would be able to distinguish between residential and non-residential.

7.3.2 We have made a draft decision to maintain the current price structure for unconnected properties

We have made a draft decision to maintain the current price structure for unconnected properties (including properties disconnected due to non-payment), that is, not charging unconnected properties.¹³⁴

In 2022, our reasoning for this position was that:

- unconnected properties do not directly impose costs on Essential Water's network
- properties that have been disconnected due to non-payment of fees should not continue to be levied water or wastewater charges.¹³⁵

Essential Water may levy water and wastewater service charges to unconnected properties under the *Water Management Act 2000*, as long as, in the utility's opinion, it is reasonably practicable for water and wastewater services to be provided to that land.¹³⁶

However, in practice it is very difficult to recover charges, especially when owners cannot be traced, which causes additional expenses in debt recovery. It is therefore pragmatic to set water and wastewater charges to zero.

7.4 Draft decisions on trade waste and miscellaneous charges

Our draft decision is:



28. To set Essential Water's trade waste and miscellaneous charges as shown in Appendix D.2 and D.3.

We set maximum prices Essential Water can charge its customers for:

- trade waste charges - which mainly involve commercial and industrial customers who discharge more concentrated waste into Essential Water's wastewater system than regular domestic wastewater.¹³⁷
- miscellaneous charges - for other monopoly services that Essential Water provides, such as damaged meter replacements and conveyancing certificates.¹³⁸

Both trade waste and miscellaneous charges account for a minor part of Essential Water's total revenue. In 2025-26, revenue from these charges is estimated to be \$1.9 million – roughly 0.6% of its notional revenue requirement.

The full schedule of proposed trade waste and miscellaneous charges are provided in Appendix D.2 and D.3. We welcome feedback from stakeholders on the impacts of these draft charges.

We continue to align Essential Water's trade waste prices with DCCEEW guidance

While it has a trade waste policy^d, which is consistent with DCCEEW's guidelines^e, in our 2019 review we found that Essential Water was not recovering the costs of providing trade waste services to its customers.¹³⁹ We set its trade waste prices with reference to DCCEEW's Liquid Trade Waste Regulation Guidelines (DCCEEW's guideline prices), and included a 10-year transition period to avoid price shock.¹⁴⁰

In our 2022 review, Essential Water indicated it had not applied these trade waste prices to most customers and therefore proposed keeping in place the transition paths from the 2019 review, planning to implement trade waste prices in January 2023.¹⁴¹ This approach maintained the transition path recommendations.¹⁴²

In its pricing proposal, Essential Water stated that while it has made progress transitioning to a trade waste pricing framework, it has not been able to implement trade waste prices in the current determination period.¹⁴³

To support the transition, Essential Water is undertaking inspections to determine facilities' trade waste category and verify that appropriate pre-treatment or catchment systems are in place. Essential Water anticipates its completion of all required inspections before July 2026, intending to apply trade waste prices from 1 July 2026.¹⁴⁴

Since receiving Essential Water's proposal, we have received updated guidelines from DCCEEW for trade waste fees and charges (provided for 2024/25). Essential Water has stated that if it were aware such prices existed, it would have been its intention to use these updated figures as the basis for their pricing proposal with regards to trade waste.

Essential Water's proposed trade waste prices are between 2% lower and 1% higher than the DCCEEW's updated guidance for all fixed and variable charges, except for Essential Water's proposed food waste disposal charge, which is 11% lower than the DCCEEW's updated guidance.

Our draft decision on fixed trade waste prices therefore aligns prices to DCCEEW guidance, and where guidance is not available, updates only for inflation.

Volume- and mass-based trade waste prices continue to transition to align with DCCEEW guidance

In line with the price transition path set in the 2019 review, Essential Water proposed to charge 80% of guideline variable prices in 2026-27, 90% in 2027-28 and 100% in 2028-29 (that is, full alignment with guideline prices by 2028-29).¹⁴⁵ Our draft decisions set volume-based prices that are updated to reflect the DCCEEW's 2024/25 guideline prices, and continue on the price transition path set in our 2019 review.

In its pricing proposal, Essential Water stated that although it is required to published mass-based charges, it does not currently have any mass-based (Category 3) customers.¹⁴⁶ Essential Water did not propose mass-based charges, however, its trade waste revenue and forecasts are based on the transition path.

^d Essential Water, [Water: Discharge of Liquid Trade Waste Policy CEOM7046](#), September 2022.

^e Department of Climate Change, Energy, the Environment and Water, [Liquid Trade Waste Management Guidelines](#), 2021.

Our draft decisions include charges for mass-based trade waste prices which follow DCCEEW's 2024/25 guidance, which is a shorter list of items than that in the last Determination (49 line items to 18), with prices following the transition path.

Our draft decisions align NRR with expected trade waste revenue at cost-reflective levels

In our 2019 and 2022 reviews, IPART subtracted \$377,000 (\$2018-19) and \$395,000 (\$2021-22) per year from Essential Water's wastewater NRR, respectively.¹⁴⁷ This represented the revenue that Essential Water would receive under fully cost-reflective (guideline) prices, on the basis that other sewerage customers should not pay for trade waste services.¹⁴⁸

We recommended that the shortfall between the revenue that Essential Water would recover under guideline prices and the forecast revenue Essential Water would recover under our transitioning prices be funded by a NSW Government subsidy (for both reviews).¹⁴⁹ Essential Water has confirmed it has received this subsidy.

To date, Essential Water has not implemented the prices set in the price transition path in our 2019 pricing review. Therefore, Essential Water has not received trade waste revenue under transitioned prices and has absorbed these costs.

For the 2026 determination period Essential Water proposed that revenue and prices be based on its projections (which reflect transitioning prices) and the shortfall is too small to warrant further recommendations to government for a dedicated subsidy. Therefore, the wastewater NRR would be deducted by Essential Water's forecast trade waste revenue under transitioning prices (its expected revenue), rather than revenue under fully cost-reflective prices.

We consider this to be a reasonable approach and our draft decisions reflect accepting their proposal. Our NRR for Essential Water for the 2026 determination deducts only expected (forecast) trade waste revenue from wastewater NRR.

We consider the shortfall in revenue for Essential Water to be manageable, as outlined in Table 7.8. The shortfall would be \$0 by 2028-29 of the determination period as prices would be fully transitioned by year 3. Over a 5-year determination period, this would reflect as around \$4.22 (\$2025-26) per annum per 20 mm equivalent customer bill for wastewater customers.

Table 7.8 Trade waste shortfall over the upcoming determination period (\$'000) (\$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31
Estimated trade waste revenue under guideline prices	319	320	321	321	322
Estimated trade waste revenue under transitioning prices	179	297	321	321	322
Shortfall	140	23	0	0	0

Source: IPART analysis and Essential Water, Trade Waste Projections 2026-31, October 2025.

Our draft decisions include Essential Water's proposed increases, additions and removal to its miscellaneous charges

For the upcoming determination period, Essential Water proposed:

- **Increases to 10 charges** to reflect material increases in its efficient costs.¹⁵⁰ These increases include updating external contractor fees, internal labour rates, and material and mobilisation costs to cost-reflective levels.
- **2 new charges** to cover the cost of services which are currently being provided but which are not being recovered.¹⁵¹ These are:
 - Reprint of a statement and send by mail, and
 - Standpipe hire – connection fee (to cover account set up, key and swipe card).
- **The removal of 1 charge** (the full conveyancing certificate with history search fee) as this category has never been used, and the other conveyancing certificate miscellaneous charges cover all potential requirements.¹⁵²
- 44 miscellaneous charges are held constant in real terms:
 - 30 charges are proposed to increase by Consumer Price Index (CPI)
 - 14 services are proposed to continue to be charged by quote or have no fee.¹⁵³

Our draft decisions adopt Essential Water's proposed miscellaneous charges on the basis these charges are a reasonable reflection of the efficient costs of providing these services.

Our draft decision on Essential Water's miscellaneous charges are set out in Appendix D.3.

Chapter 8 >>

Impacts of draft decisions



Summary of decisions on the impact of our draft prices

Typical water and wastewater bills would increase by \$84 on average each year over the next 5 years from 1 July 2026

Under our draft decisions, typical household water and wastewater bills would increase by \$84 (or 4.7%) each year from 1 July 2026 for 5 years plus inflation. This is less than the yearly increases under Essential Water's proposed prices of \$342 or 15.5% per year. Bills would be 27.0% on average less each year than under Essential Water's proposed prices.

This compares with the full cost recovery prices, under which bills would increase by \$156 on average each year over the next 5 years plus inflation.

With forecast inflation of 2.9% in 2026-27, bills would increase by \$126 (or 7.8%), in nominal terms starting 1 July 2026.

Pensioner rebates are out of step with prices in Broken Hill

Pensioners are eligible for an annual rebate of \$175 (total across the fixed service charges). This value has not changed in some time, and does not index with inflation.

We note that we have made recommendations in previous water pricing reports on potential considerations for rebates and on expediting a review.

We also note there is a current NSW Government review on how to improve the effectiveness of existing rebates to provide greater support to those that are most in need of financial support. We support this review, and note the increasing gap between bill prices and rebates for pensioners in Broken Hill

Non-residential customer bills will increase on average between 2.8% and 10.9%

These increases represent the full cost recovery prices. We consider that these prices represent a lower risk than residential customers, particular in regards to mining businesses.

8.1 Our draft decision caps residential prices for affordability

8.1.1 Household customers

In discussing typical household bills, we refer to the combined water and wastewater bills a household of 3 to 4 people living in a house would pay.^a

^a This is based on consumption of 250 kilolitres a year, which is the average amount of water an individually metered house in Essential Water's area of operations uses.

Under our draft maximum prices, typical household bills for water and wastewater services would increase by around \$84 (or 4.7%) on average each year over 5 years plus inflation (in \$2025-26). This is less than the yearly increases under Essential Water’s proposed prices (\$342 or 15.5%).^b

The typical household bill would increase from \$1,624 in 2025-26 to:

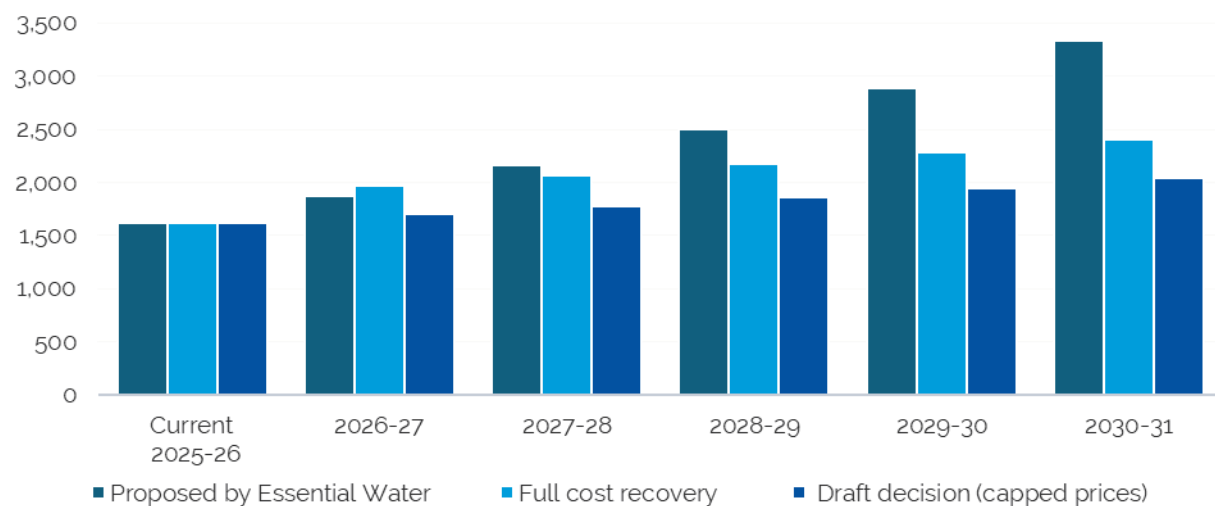
- \$1,700 in 2025-26 plus inflation
- \$2,042 in 2030-31 in the last year of the 2026 determination period, plus inflation.

With inflation, the typical household bill would increase by \$126 (or 7.8%) to \$1,751 in 2026-27.

Figure 8.1 compares the current typical household bill and typical household bills under Essential Water’s proposed prices and our draft decisions. It includes:

- Essential Water’s proposed smooth glide path and prices
- our hypothetical cost recovery prices using a step glide path, which includes a 21.1% increase in year 1, then smaller increases (around 5.1%) between year 2 and 5 (plus inflation)
- our draft decision which caps residential prices so that customers who use 200 kL/year have a 5% annual average bill increase over the 2026 determination period.

Figure 8.1 Typical household water and wastewater bills under our draft maximum prices compared to Essential Water’s proposal (\$2025-26)

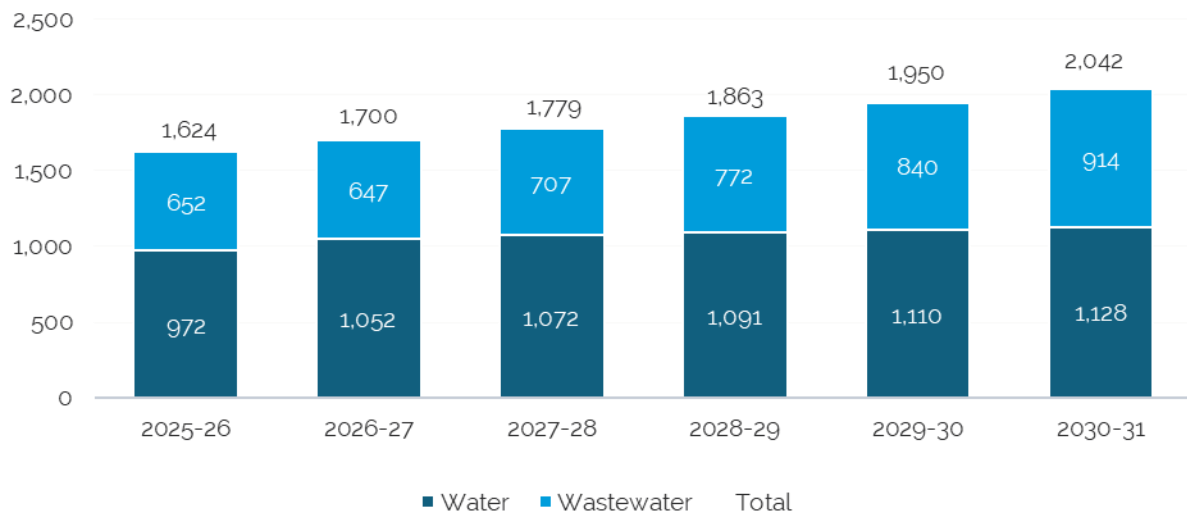


Note: Typical household water and wastewater bills are based on a customer living in a house and using 250 kL per year. Bills in 2025-26 reflect current bills. The change between 2025-26 and 2026-27 excludes inflation. Prices between 2026-27 and 2027-28 will be subject to yearly inflation.
Source: IPART analysis.

Figure 8.2 shows the typical household water and wastewater bill would increase under our draft prices. It shows that the average yearly increase over the 5 years from 2025-26 to 2030-31 would be \$31 (or 3.0%) for water bills and \$52 (or 7.0%) for wastewater bills, plus inflation.

^b In \$2025-26 terms.

Figure 8.2 Typical bill increases under our draft prices (\$2025-26)



Notes: Typical household bills are based on a customer living in a house and using 250 kL per year. The change between 2025-26 and 2026-27 excludes inflation. Prices between 2026-27 and 2027-28 will be subject to yearly inflation. Totals may not sum due to rounding.

Source: IPART analysis.

For other households, starting 1 July 2026, bills would increase on average each year (in addition to inflation) by

- \$84 (or 5.8%) for a typical small household living in a standalone house
- \$84 (or 3.9%) for typical large household living in a standalone house
- \$84 (or 5.5%) for pensioner households (couples) without a rebate and \$88 (or 6.5%) with a rebate
- \$84 (or 5.9%) for pensioner households (singles) without a rebate and \$88 (or 7.0%) with a rebate.

Based on forecast inflation of 2.9%, water and wastewater bills would increase in the first year of the 2026-31 determination period from 1 July 2026 by:

- \$115 (or 8.9%) for a typical small household living in a standalone house
- \$135 (or 6.9%) for a typical large household living in a standalone house
- \$117 (or 8.6%) pensioner households (couples) without a rebate, by, and with a rebate, by \$117 (or 9.9%)
- pensioner households (singles) without a rebate, by \$114 (or 9.1%), and with a rebate, by \$114 (or 10.5%).

Table 8.1 presents bill impacts under our draft prices for a range of households under draft prices and the full cost scenario.

Table 8.1 Draft bill impacts for residential customer types for water and wastewater (\$2025-26)

Customer	Water usage (kL/year)	2025-26 Current	2026-27	2027-28	2028-29	2029-30	2030-31	Average change (%)
Owner-occupiers								
Small household - house	100	1,287	1,362	1,442	1,525	1,613	1,704	5.8%
Household with modest usage - house	200	1,512	1,587	1,667	1,750	1,838	1,929	5.0%
Typical household - house	250	1,624	1,700	1,779	1,863	1,950	2,042	4.7%
Large household - house	400	1,962	2,037	2,117	2,200	2,288	2,379	3.9%
Pensioner - couple (without a pensioner rebate)	130	1,354	1,430	1,509	1,593	1,680	1,772	5.5%
Pensioner - couple (receives a pensioner rebate)	130	1,179	1,260	1,343	1,431	1,522	1,618	6.5%
Pensioner - single (without pension rebate)	90	1,264	1,340	1,419	1,503	1,590	1,682	5.9%
Pensioner - single (receives a pension rebate)	90	1,089	1,170	1,253	1,341	1,432	1,528	7.0%
Renters with a separate meter								
Renter - small household	100	225	225	225	225	225	225	0.0%
Renter - household with modest usage	200	450	450	450	450	450	450	0.0%
Renter - typical household	250	563	563	563	563	563	563	0.0%
Renter - large household	400	900	900	900	900	900	900	0.0%
Renter - pensioner couple (no pensioner rebate)	130	293	293	293	293	293	293	0.0%
Renter - pensioner single (no pensioner rebate)	90	203	203	203	203	203	203	0.0%

Note: Pensioners who receive a rebate would see their bills increase slightly more, before inflation, compared to other residential customers. This is because the pensioner rebate is fixed in nominal terms at a maximum of \$175 per annum.

Source: IPART analysis.

Renters will not experience higher water bills

Essential Water sends bills to property owners. However, property owners can pass on the water usage component of their bills to their tenants and may also increase rent to cover additional water costs associated with fixed charges.^c Tenants in this situation would not experience an increase in their bills, as we have not changed the water usage charge under our draft prices (other than by inflation), assuming behaviour remains unchanged. However, they may face higher rent payments.

Fixed charges would increase for owners of rental properties

The bills paid by owners of rental properties include the fixed water service charge, fixed wastewater service charge and a deemed wastewater usage charge. Bills paid by property owners leasing out a house would increase by \$84 (or 6.9%) per year on average over the determination period before inflation and \$109 (or 10.2%) in 2026-27 with inflation.

It should be noted that while landlords cannot directly pass on fixed water costs to tenants, there is the possibility that the increase in fixed costs could lead to an increase in rent charged to tenants.

8.2 Affordability is a key concern for the community

Affordability and high inflation were key concerns among stakeholders for this review, and Essential Water itself highlighted affordability issues associated with its proposal. We recognise that any price increases could have substantial impacts on customers, including pensioners.

8.2.1 Bills as a proportion of income would be too great under the full cost recovery prices

For the purposes of this draft report, we consider a household spending more than 3% of their income on water and wastewater bills as being in 'water stress', as proposed by the UN.¹⁵⁴

The UN doesn't specify whether this threshold is based on gross or disposable income. We have used disposable income for our affordability analysis in this report as it represents a more realistic estimate of cash available for households to spend.^d

Our estimates of household disposable incomes are based on data from the Australian Bureau of Statistics. Because there is no direct way to measure household disposable income, we used estimated effective tax rates for different national income levels and applied them to the income distribution of households within the Broken Hill area.

^c Property owners cannot pass on the fixed service charge components of their bill directly to tenants. However, the level of fixed service charges may be a consideration in the rent tenants pay, particularly in the longer term.

^d Gross household income was used in affordability analysis for the 2025 reviews of the maximum prices for Sydney Water and Hunter Water.

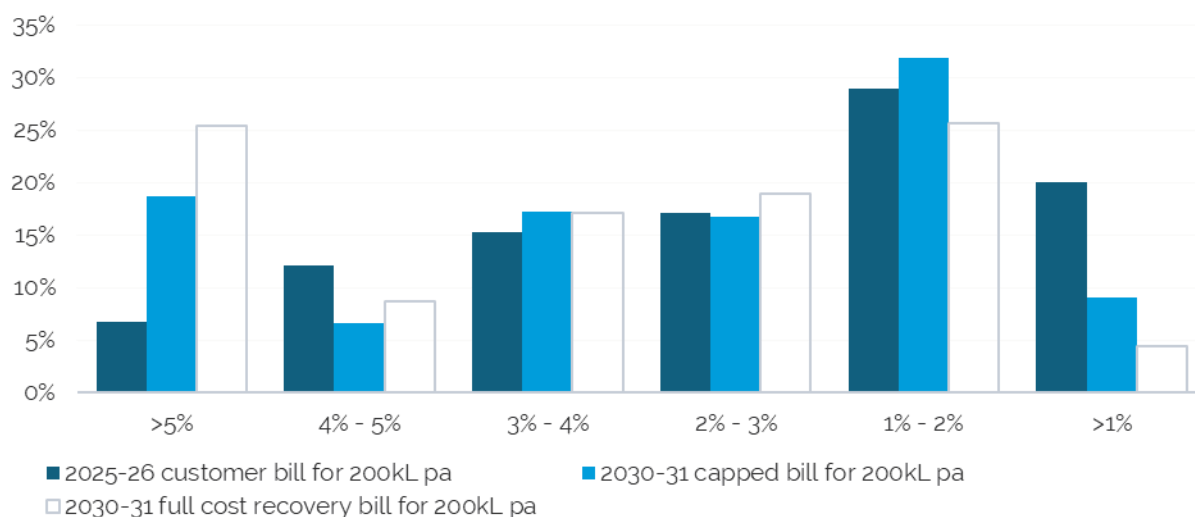
Affordability for a typical household becomes an issue

Figure 8.3 shows how the estimated distribution of Essential Water customers based on estimated percentage of disposable income spent on the typical water and wastewater bill under current prices and proposed prices starting 1 July 2026.

For affordability we estimated a proportion of households over the 3% water stress threshold would rise from 21% in 2025-26 to:

- 49% under Essential Water's proposed prices, with an average spend for those customers \$2,410 over the threshold in 2030-31
- 29% under our draft prices, capping annualised price increases to 5% for modest water users with an average spend for those customers \$1,143 over the threshold in 2030-31.

Figure 8.3 Distribution of Essential Water customers based on estimated percentage of disposable income spent on water bills



Note: While a typical household uses 250 kL pa, this chart reflects a modest water user at 200 kL as our affordability considerations were based on modest water users.

Source: 2021 ABS census data, ABS Australian National Accounts: Distribution of Household Income, Consumption and Wealth, 2021-22 data (for household effective tax rates by income brackets), IPART analysis.

Table D.20 in Appendix D shows affordability ratios for owner-occupier households under our draft decisions. For households earning a median disposable income of around \$71,700 would see their affordability ratio increase from:

- 2.3% in 2025-26 to 2.8% in 2030-31 for a typical household
- 2.7% in 2025-26 to 3.3% in 2030-31 for a large household (who own their own home, live in a house with a big garden and/or pool and have relatively higher water use).

Affordability for customers experiencing vulnerability is an even larger issue

Not all customers have the typical usage of 250 kL/year or pay all water and wastewater charges. For example, renters might only directly pay the water usage charge depending on their circumstances, and apartments typically use less water than houses.

Tables D.20 to D.22 in Appendix D show our analysis on how various income groups, households experiencing vulnerability, and renters might be under our draft decisions.

We included in our affordability analysis households experiencing vulnerability, that is, those on government support payments that and their proximity to the 3% water stress threshold.

Under our draft prices:

- renters on low income in a large household: 2.3% in 2025-26 to 2.3% in 2030-31
- pensioner couples with the pensioner rebate: 2.6% in 2025-26 to 3.5% in 2030-31 (compared with 4.3% at full cost recovery)
- pensioner couples without the pensioner rebate: 2.9% in 2025-26 to 3.8% in 2030-31 (compared with 4.6% at full cost recovery).

Pensioner couples who don't apply for the pensioner rebate are close to water stress under current prices and would be 0.8% above the 3% threshold in 2030-31 under our draft decision. However, it is likely that most pensioners would claim the rebate. This would bring pensioner couples to 3.5% of estimated disposable income which is 0.5% above the 3% threshold. Our proposed recommendations for pensioner rebates are discussed further in section 8.2.3.

8.2.2 Our affordability analysis doesn't factor in potential real wage increases

Our analysis on affordability does not factor in potential real increases in disposable household incomes that may occur over the determination period. The February 2026 RBA Statement of Monetary Policy (SMP) forecasts an increase in real disposable household income of between 1.3% and 2.5% from now to December 2028.¹⁵⁵ We note that if this increase is broadly uniform across income groups, this would lead to an improvement in affordability metrics presented in this draft report.

We note that government payment recipients will likely receive an indexation increase in March 2026 based on real wage growth, prior to our determination start on 1 July 2026. We will update our analysis to account for this in the final report.

8.2.3 Pensioner rebates provide insufficient financial assistance

We are conscious the \$175 pensioner rebate to eligible customers has not increased for many years, including through periods of high inflation. If the pensioner rebate had been increased by inflation rate it would be around \$408 now.

The pensioner rebate is available to Pension Concession Card holders and Department of Veteran Affairs Gold Card holders. Eligibility includes customers receiving the aged pension, disability support pension, the carer payment, the parenting payment and some JobSeeker recipients.¹⁵⁶

Our analysis of pensioner rebates shows that the rebate is currently insufficient to bring eligible pensioners above the water stress threshold for both single and couple households receiving the aged pension, disability support pension and carer payment. By the end of the determination period, households receiving these pensions (and the pension rebate) will be further below the threshold (see Appendix D.5).

We also find that other low-income groups that are not eligible for the pensioner rebate may see their bills increase beyond the 3% water stress threshold (see Appendix D.4).

The rebate available to Essential Water customers is significantly lower than the rebate available to pensioners served by both Hunter Water and Sydney Water.

In our 2022 Essential Water pricing review, we recommended the NSW Government review pensioner concessions for water and wastewater bills across NSW.¹⁵⁷ In our reviews of Sydney Water and Hunter Water prices, we made recommendations that in reviewing pensioner rebates NSW Government considers:

- targeting rebates to assist those most in need
- aligning goals, objectives and outcomes across NSW
- temporarily expanding eligibility to households that hold either a Health Care Card or Low Income Health Care Card
- exploring the merits of a utilities rebates
- expediting the review as soon as possible.¹⁵⁸

We reiterate those recommendations and note the current NSW Government review on how to improve the effectiveness of existing rebates to provide greater support to those that are most in need of financial support. We support this review in line with our previous recommendations on considerations, and note the increasing gap between bill prices and rebates for pensioners in Broken Hill.

8.3 Non-residential customers

Non-residential customers' bills depend on several factors, including their water and wastewater usage, which can vary significantly depending on the size and nature of the customer. Bills also depend on meter configuration and trade waste discharge factors, as well as the catchment the customer is served by.

We explored the indicative bill impacts on a number of non-residential business types.^e We found that on average from 1 July 2026 to 30 June 2031:

- increases would range between 2.8% to 10.9% per year plus inflation for non-residential customers, with higher water usage charges leading to higher average yearly changes for non-residential customers with greater water usage
- small businesses using 250 kL per year would see bill increases of 7.7% per year plus inflation, increasing from \$1,760 currently in 2025-26 to \$2,553 in 2030-31 (in \$2025-26)

^e This includes impacts of water, wastewater and where applicable, trade waste prices.

- medium public hospital using 20,000 kL per year would see bill increases of 2.9% per year plus inflation
- mining customers would see bill increases of 6.1% to 7.6% per year plus inflation.

Appendix D.4 presents the draft bill impacts for various non-residential customers.

8.3.1 We did not identify affordability challenges for mining customers

IPART conducted affordability analysis on the impact of the rate increases on the two mining customers in Broken Hill^f. Combined, these mines comprise Essential Water's two largest customers and approximately 30% of Essential Water's revenue base.

IPART examined financial data for the two mines to understand the financial impact of our proposed price increases. IPART modelling estimates the proposed price increases would increase direct production costs^g on the order of 1%^{hi} over the next determination period. Both mines appear to be financially sound and broadly profitable^j.

We note these mining customers did not attend our Public Hearing or make a submission to our Issues Paper. We welcome feedback from these customers on our Draft Report to inform our final determination.

Seek Comment



9. Are the proposed prices affordable for mining customers in Broken Hill?

Seek Comment



10. What would be the impact of the proposed prices on mining customers?

8.4 Impacts on Essential Water's financial sustainability

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

^f Perilya Limited and Broken Hill Mining (formerly CBH), which run the two primary mining operations in Broken Hill
^g As reflected in Cost of Sales, which captures the direct costs of producing or purchasing goods sold during a period
^h Perilya Limited is a private company which does not release financial data. IPART has acquired financial statement data from IBISWorld but note these are modelled estimates only.
ⁱ [BHM 2025 Financial Report](#), page 12, cost of sales.
^j IPART acquired credit report data for Perilya Ltd, which did not show any indicators of poor financial health, IPART examined publicly available share price data for BHM. BHM's share price has increased significantly since the company was listed in July 2025, indicating robust financial health.

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

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

See Appendix D.6 for our detailed financeability analysis.

8.4.1 Implication for general inflation

Under Section 15(1)(d) of the *IPART Act 1992 (NSW)*, we are required to consider the effect of our determinations on general price inflation. The Australian Bureau of Statistics (ABS) does not collect data on Essential Water's water and wastewater prices. The national consumer price index (CPI) is based only on capital city prices, hence the change in Essential Water's prices are unlikely to have a measurable effect on the national CPI.

To assess the contribution of water bills on inflation, we have assumed in previous determinations that within its area of operations, changes in water prices have a similar effect on inflation as that of changes to Sydney Water's prices in Sydney. Currently, water and wastewater prices contribute 0.59% towards Sydney's CPI (All groups, Sydney)^k. This means that a 1% change in the price of water and sewerage services in all capital cities would result in a 0.0059% change in the CPI.

Under our recommended draft prices Essential Water's typical water and wastewater bill increases by around 26% between 2025-26 and 2030-31. As such the impact on CPI arising from our draft prices is 0.152% or around 15 basis points. Based on this contribution, we estimate that the average annual increase for the typical household bill would have a small impact on inflation in Broken Hill.

Seek Comment



11. What are your views on our draft bill increases of 4.7% plus inflation in each of the next 5 years? Are these affordable?

^k Australian Bureau of Statistics, [Annual weight update of the CPI and Living Cost Indexes 2025, Appendix 2: Housing Capital Group Weights](#), 26 February 2025. [Consumer Price Index, Australia, October 2025](#) | Australian Bureau of Statistics, 26 November 2025

Chapter 9 >>

Performance and accountability

09

Summary of our draft decisions on performance and accountability

We set Essential Water's proposed performance outcomes, measures and targets with some modifications

Our draft decision is to adopt the performance outcomes, measures and targets proposed by Essential Water, and to add an additional outcome and some additional measures to improve transparency.

We consider that these additional measures and targets will help keep stakeholders aware of Essential Water's ongoing performance.

We recommend Essential Water to publicly report on all its performance outcomes and measures on its website and compare them to all available targets each year, as it currently only reports on its water quality on its website.

Essential Water did not propose to opt in to financial incentive schemes

We did not include any financial incentive schemes for Essential Water for the 2026 determination period. This was consistent with their proposal.

9.1 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 programs are linked to outcomes.

Pursuant to section 15(1)(b), 15(1)(f) and 15(1)(l) of the IPART Act, our assessment of Essential Water's outcome and performance measures is one way that we consider its standards of quality, reliability and safety, and how these compare with the costs we allow for in Essential Water's expenditure envelope. The public accountability aspect helps to protect consumers from the abuses of monopoly power and to protect the environment.

Essential Water is a water supply authority under the *Water Management Act 2000* and has no operating licence. As a result, its performance and accountability to customers, regulators and other stakeholders is one of the key issues for our review.

Essential Water proposed 4 customer and community outcomes:

- water reliability – reliable access to drinking water
- water quality – clean and safe drinking water
- sustainability and environmental protection
- good customer service.

Essential Water proposed 8 performance measures associated with these outcomes, as shown in Table 9.1 below.

Table 9.1 Essential Water's proposed performance outcomes and measures

Performance outcomes	Performance measures	Proposed target and trend
Water reliability – reliable access to drinking water	Average number of unplanned interruptions per customer	Target: 0.04 per annum Trend: Maintain
	Average number of customer minutes lost from unplanned interruptions	Target: 15.4 in 2026-27, reducing gradually to 12.5 in 2030-31 Trend: Improve
Water quality – clean and safe drinking water	Percentage compliance with Australian Drinking Water Guidelines	Target: 100% compliance with Australian Drinking Water Guidelines Trend: Maintain
Sustainability and environmental protection	Wastewater service interruptions (frequency, duration and number of customers affected by planned and unplanned interruptions)	Target: No wastewater service interruptions Trend: Maintain
	Notifiable environmental impacts (number by type and response time)	Target: No notifiable environmental impacts Trend: Maintain
Good customer service	Number and type of customer complaints	Target: No increase in complaints Trend: Maintain
	Response time for customer complaints	Target: Maintain response times – respond to 95% of complaints or enquiries within 4 working days of receipt Trend: Maintain
	Notify customers of planned outages within agreed notice periods	Target: Continue to notify customers within agreed timeframes – 2 days written notice for residential customers and 7 days' written notice for non-residential customers Trend: Maintain

Source: Essential Water, [Essential Water 2026-31 Pricing Proposal](#), September 2025, p 33 and IPART analysis.

9.1.1 Essential Water's proposed outcomes and measures are linked to customer engagement

It is important that a business' performance outcomes and measures are developed through robust customer consultation to ensure that customer values and priorities are reflected in proposed indicators.

Involving customers in setting priorities and outcomes helps water businesses identify better ways to deliver services.

We found that Essential Water's proposed performance outcomes and measures were developed with community consultation, namely through its Customer Panel and survey, and understanding of key customer priorities through increased interaction between employees, customers and community, caused by its small size and geographic location.¹⁵⁹

Essential Water's Customer Panel was its primary source for in-depth customer feedback.¹⁶⁰ The panel wrote what they believed Essential Water should focus on over the next 5 years, which were then categorised and labelled into 'principles', and then ranked in order of priority.¹⁶¹ The Customer Panel's top 2 priorities were maintaining water quality and ensuring water security. These were followed by sustainability/managing environmental flows and cost effectiveness.¹⁶²

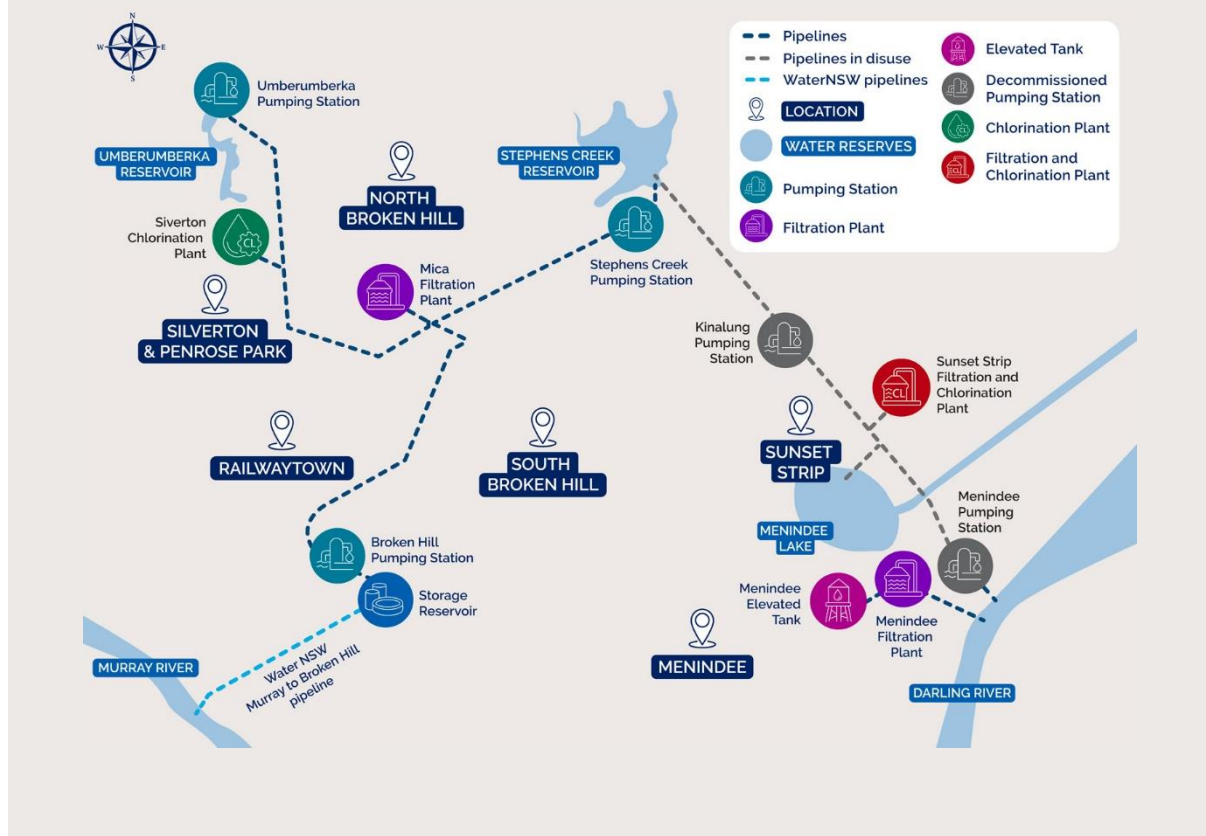
Results from its customer survey showed that water quality ranked second, after pricing and affordability, in the list of issues which were of concern to customers.¹⁶³

Pricing and affordability/cost effectiveness is not listed as a proposed top 4 customer and community outcome. However, this priority, and all top 7 outcomes, are addressed in Essential Water's proposal, linking these outcomes to its activities and expenditure.¹⁶⁴

Overall, we consider that Essential Water's engagement on performance outcomes and measures was genuine and accommodated customer input.

Box 9.1 Essential Water's services

Essential Water provides services to residential and non-residential customers in the Broken Hill and the surrounding areas of Menindee, Sunset Strip and Silverton region.



Box 9.1 Essential Water's services

Essential Water provides:

- water services including providing potable (drinking quality) water to around 18,000 people in Broken Hill and Menindee, and non-potable water to the settlements of Silverton and Sunset Strip
- wastewater services to Broken Hill
- non-potable water to 48 rural users for stock and domestic purposes.

Essential Water carries approximately 6 gigalitres (GL) of water per year in its network to around 10,000 residential customers and around 900 non-residential customers. Its 2 largest customers are mines, which together account for approximately one-third of its customers' total water consumption.

Source: Essential Water, [Essential Water 2026-31 Pricing Proposal](#), September 2025, p 16.

9.1.2 Additional metrics would support a more complete picture of outcome performance

We assessed Essential Water's proposed performance outcomes and measures using the criteria set out in our Water Regulation Handbook. We found that:

- Essential Water's proposed performance targets are driven by customer priorities, specifically those relating to water supply interruptions which were ranked as most important/important to all by its Customer Panel.
- In some areas there were insufficient measures to give customers a holistic picture of Essential Water's performance.

We consider there is utility in Essential Water including additional metrics to provide greater transparency for customers on Essential Water's performance against outcomes.

The inclusion of additional measures reflects feedback received by Essential Water's customer engagement, commentary from our independent experts, Stantec, and stakeholder feedback to our Issues Paper, such as from the JEC and EWON.

In some cases, we have proposed additional metrics which we understand are readily available as they are reported elsewhere.^a In other cases, we have recommended that Essential Water include additional or improved metrics to better reflect its actions in response to this Draft Report. It will also have to develop the related targets.

A summary of our draft performance outcomes, measures and targets for Essential Water can be found in Table 9.2 below. We are seeking stakeholder feedback on our draft performance metrics.

^a See Appendix C of [Essential Water's proposal](#).

The following sections step through our assessment of Essential Water's proposed performance outcomes, measures and targets, and identify areas where its performance reporting could be expanded.

Water reliability – reliable access to drinking water

Water security was the Customer Panel's second top priority (after reliable access to clean and safe drinking water).¹⁶⁵ Essential Water has proposed to expand its existing measures for unplanned interruptions for water supply, introducing targets for the average number of:

- unplanned interruptions per customer
- customer minutes lost from unplanned interruptions.¹⁶⁶

Essential Water prioritised targets for water supply as its data on unplanned interruptions to its wastewater service shows no interruptions since beginning reporting in 2022-23. Essential Water proposed performance targets with reference to its current performance, noting it is looking to increase its level of renewals which will improve performance in the long run.¹⁶⁷

Essential Water's Customer Panel found it important to report on supply interruptions (both unplanned and planned).¹⁶⁸ Further, Essential Water already collects data on the frequency and duration of, and number of customers impacted by unplanned and planned interruptions.¹⁶⁹

Therefore, we have made a draft decision that Essential Water should report on their proposed measures for both unplanned and planned interruptions, with modifications:

- average number of unplanned and planned interruptions per 1,000 properties each year, and
- average duration (minutes) of an unplanned and planned interruption each year.

Our proposed target for the number of interruptions would instead represent figures per 1,000 properties (customers), rather than per customer, and our proposed target for the average duration of unplanned interruptions (121 minutes) is based on the median for small utilities from the [2023-24 National Performance Report](#) (NPR).

We note that Essential Water's average duration of unplanned service interruptions over 2023-24 was reported as 138 minutes in the NPR.¹⁷⁰ We are seeking feedback from Essential Water on what it considers to be an appropriate target for the average duration of unplanned and planned service interruptions.

Clean and safe drinking water

Water quality was Essential Water's Customer Panel's top priority, and the second top priority from its customer wide survey.¹⁷¹ Essential Water proposed to measure this by its percentage of compliance with Australian Drinking Water Guidelines (ADWG), with a target of 100% compliance.¹⁷²

Compliance against these guidelines is an existing NSW Health standard, and Essential Water currently publishes quarterly and annual drinking water quality reports on its website, which shows compliance with ADWG.¹⁷³ In addition, from October 2024 it commenced publishing reports on its website on per- and poly-fluoroalkyl substances (PFAS) testing.¹⁷⁴

We consider that this measure provides transparency and confidence to customers on their drinking water quality. We consider there is benefit from Essential Water also reporting on data that informs its proposed measure and is used in its water quality reports. Therefore, our draft decision is that Essential Water should also report on the:

- frequency of all events and of selected specific events (such as colour) out of specification of the ADWG each year.

Sustainability and environmental protection

Sustainability and managing environmental flows was the third top priority of Essential Water's Customer Panel.¹⁷⁵ Within this performance outcome, Essential Water has proposed 2 measures relating to wastewater service interruptions and notifiable environmental impacts:

- frequency, duration and number of customers affected by planned and unplanned wastewater service interruptions
- number of notifiable environmental impacts by type and response time.¹⁷⁶

Essential Water has had no planned or unplanned wastewater service interruptions and notifiable environmental impacts in the current determination period.¹⁷⁷

Our independent experts, Stantec, commented on Essential Water's wastewater performance measures. Stantec considers that performance measures relating to the number of reticulation main breaks and chokes, house connection branch breaks and chokes, dry weather overflows, and wet weather overflows, would be more informative in understanding the performance of the sewer network and informing decision making.¹⁷⁸

Our draft decision is to include these metrics as an additional performance measure relating to wastewater to improve customer transparency surrounding Essential Water's wastewater performance. We have drafted a target of 30 wastewater main breaks and chokes per 100km of wastewater for this measure. We note that the median for small utilities in the [2023-24 NPR](#) is 15 breaks and chokes per 100km, and Essential Water's reported performance was 133 breaks and chokes per 100km in 2023-24. We acknowledge our draft target may not suit Essential Water's current operating environment. We are interested in hearing from Essential Water on what it considers to be an ambitious but achievable target for wastewater main breaks and chokes per 100km of main.

We have also made a draft decision that Essential Water should report on its proposed wastewater performance measure as its Customer Panel found reporting on these metrics to be important¹⁷⁹ and there is a minimal reporting burden as the data on these metrics are already collected¹⁸⁰.

Good customer service

To measure its customer service Essential Water proposed to measure:

- number and type of customer complaints
- response time for customer complaints
- notifying customers of planned outages within agreed notice periods.¹⁸¹

We consider there is benefit from Essential Water also reporting on the number of days taken to resolve complaints each year as reporting on the type and time to resolve customer complaints was deemed as important by its Customer Panel.¹⁸² We also consider it will provide customers with insight into Essential Water's service efficiency. Additionally, there is a minimal reporting burden as the data on this metric is already collected.¹⁸³

Further, adding a qualitative metric to measure the quality of Essential Water's customer service, as quantitative metrics could fluctuate due to factors other than its service, such as due to the size of its customer base. Our draft decisions include the following measure:

- The percentage of survey respondents that provide an overall service satisfaction rating of 8 or more out of 10 (via survey) each year.

Value for money and affordability

Essential Water has not proposed performance outcomes, measures and targets relating to value for money and affordability. Responses to Essential Water's customer survey ranked pricing and affordability as its customers' top priority¹⁸⁴ and its Customer Panel ranked cost effectiveness as its fourth top priority¹⁸⁵.

In submissions to our Issues Paper, EWON recommended that Essential Water include a section on 'affordability and financial vulnerability' in its performance outcomes and measures.¹⁸⁶ The JEC also submitted that Essential Water should implement more performance metrics, including those relating to financial hardship, quality and water and customer service.¹⁸⁷

We agree that reporting and tracking performance against value for money and affordability will bring more accountability to Essential Water in their practices. Our draft decision is to include the percentage of survey respondents that:

- agree Essential Water delivers value for money (via survey) each year
- are accessing, or who have accessed, Essential Water's Financial Hardship Support that agree it is effective (via survey) each year.

We consider that including indicators that are not wholly within the business' control (and therefore can't be used to assess performance) may be used by a water business to promote good decision making. We have therefore made a draft decision to also include these measures, which reflect some of the JEC's and EWON's suggestions:

- number, or percentage, of customers supported under the 'Company Policy: Essential Water Financial Hardship Support' with payment plans or debt waivers program each year
- percentage of customer accounts 90 days in arrears as proportion of total accounts each year
- number of water restrictions completed for non-payment each year.

Table 9.2 Draft performance outcomes, measures, targets and trends and indicators for Essential Water

Performance outcome	Performance measure	Performance target	Other indicators
Reliable access to drinking water	Average number of unplanned interruptions per 1,000 properties each year	Target: 35 per annum Trend: Maintain	
	Average duration (minutes) of an unplanned interruption each year	Target: 121 minutes per annum Trend: Improve	
	Average number of planned interruptions per 1,000 properties each year	Target: 28 per annum Trend: Maintain	
	Average duration (minutes) of a planned interruption each year	Target: seeking Essential Water feedback	
Clean and safe drinking water	Percentage compliance with Australian Drinking Water Guidelines (ADWG) values	Target: 100% compliance with Australian Drinking Water Guidelines values Trend: Maintain	
	Frequency of all events out of specification of ADWG each year	Target: 0 per annum Trend: Maintain	
	Frequency of selected specific events (such as colour) out of specification of ADWG each year	Target: 0 per annum Trend: Maintain	
Sustainability and environmental protection	Wastewater service interruptions each year (frequency, duration and number of customers affected by planned and unplanned interruptions)	Target: No wastewater service interruptions per annum Trend: Maintain	
	Notifiable environmental impacts each year (number by type and response time)	Target: No notifiable environmental impacts per annum Trend: Maintain	
	Number of wastewater reticulation main breaks and chokes, house connection branch breaks and chokes, dry weather overflows and wet weather overflows each year	Target: 30 wastewater main breaks and chokes per 100km of wastewater main Trend: Improve	
Good customer service	Number and type of customer complaints each year	Target: No increase in complaints (24 per annum) Trend: Maintain	
	Response time for customer complaints and enquiries each year	Target: Respond to 95% of complaints or enquiries within 4 working days of receipt Trend: Maintain	
	Successful notification to customers of planned outages within agreed notice periods each year	Target: 100% notification within 2 days written notice for residential customers and 7 days written notice for non-residential customers Trend: Maintain	
	Percentage of survey respondents that provide an overall service satisfaction rating of 8 or more out of 10 (via survey) each year	Target: ≥50% per annum	
	Number of days to resolve complaints each year	Target: 9.25 per annum Trend: Maintain	
Value for money and affordability	Percentage of survey respondents that agree Essential Water delivers value for money (via survey) each year	Target: ≥50% per annum	

Performance outcome	Performance measure	Performance target	Other indicators
	Percentage of survey respondents that are accessing, or who have accessed, Essential Water's Financial Hardship Support that agree it is effective (via survey) each year	Target: ≥70% per annum	<p>Number, or percentage, of customers supported under the 'Company Policy: Essential Water Financial Hardship Support' with payment plans or debt waivers program each year</p> <p>Percentage of customer accounts 90 days in arrears as proportion of total accounts each year</p> <p>Number of water restrictions completed for non-payment each year</p>

Source: Essential Water, *Essential Water 2026-31 Pricing Proposal*, September 2025, p 33 and IPART analysis.

We are seeking feedback on updated performance measures and targets included in our draft decision

Our draft decisions on performance outcomes, measures and targets are outlined in Table 9.2 above. We are seeking stakeholder feedback on our draft performance measures to ascertain whether they provide customers and the community with a robust mechanism to hold Essential Water accountable to the outcomes that matter the most to them, and to improve Essential Water's transparency.

We are particularly seeking feedback from Essential Water, customers and stakeholders regarding whether:

- surveys are feasible from a logistical perspective and whether customers would be willing to participate in them
- additional measures are valued by customers and the community and are well suited to assess Essential Water's performance on what matters most to them
- it is feasible and/or practical for Essential Water to report against additional measures and targets
- the draft targets associated with additional measures are appropriate.

Our draft decision is:



29. To set Essential Water's proposed performance outcomes, measures and targets, as in Table 9.2.

Seek Comment



12. What are your views on our proposed performance outcomes, measures and targets and indicators?

9.2 Financial incentive schemes

Our water regulation framework includes 3 different incentive schemes that aim to encourage Essential Water 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).

The 3 schemes are intended to work together to encourage the efficient trade-offs between operating expenditure, capital expenditure and outcomes.

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

In its proposal, Essential Water did not propose to include any of the financial incentive schemes for the upcoming determination period. Essential Water stated that, rather, its cost allowances and reporting against output measures will provide it with a strong incentive to pursue cost efficiencies and appropriate service outcomes.¹⁸⁸

9.3 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.

9.3.1 Monitoring compliance with pricing determinations

While IPART does not have a role in monitoring compliance for performance standards, we are making recommendations for performance measures that should be reported.

Publishing the results of performance measures provides customers with a means to hold Essential Water accountable for the objectives which customers and the community have identified as important.

9.3.2 Monitoring outcome performance

Essential Water should report to its customers of its progress

As part of our water pricing 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.

Essential Water consulted with its Customer Panel who believed it was important to publicly report on all output measures.¹⁸⁹ Responses to our Issues Paper and survey indicated customers were not aware of Essential Water's published quarterly and annual reports^b, and that they are not adequate to hold Essential Water accountable to its customers.

We consider that Essential Water could enhance its accountability by publicly reporting on all performance measures on its website, rather than only publicly reporting its water quality reports.

We have therefore made a draft recommendation that Essential Water publicly report on all performance measures on its website and compare them to all available targets each year.

Essential Water stated it is undertaking a communications campaign to inform customers about upcoming projects as well as forecast changes to bills once IPART has made its determination, which will include clear information on its website and detail specific customer outcomes from these projects.¹⁹⁰

Essential Water has also stated it will regularly engage with customers and stakeholders, sharing information about major investments, project implementation and initiatives, discuss new or emerging issues or priorities, and seek ongoing feedback on its performance against customer outcomes.¹⁹¹

We support Essential Water utilising its communications campaign to inform customers of not only bill changes, but to also increase customer awareness of its public reporting.

In addition to this, as part of our water regulation framework IPART will publish an online performance dashboard that tracks businesses' progress against their outcome commitments. We are currently working on preparing this dashboard. This reporting is additional to, rather than an alternative for Essential Water publishing on their own website. The dashboard will be accessible via our website once it has been established.

Draft recommendation



2. That Essential Water publishes, each year on its website, how it has performed against each of its performance measures.

^b Essential Water publicly publishes quarterly and annual drinking water quality reports on its website, which shows compliance with ADWG. In addition, from October 2024 it commenced publishing reports on its website on PFAS testing.

9.3.3 Performance over the 2022 determination period

Under our water regulation framework, our expectation is for a concise set of performance outcomes related to customer, community and the environment. This replaces the approach we took in our 2022 Final Report. In our 2022 review, we included output measures, which we expected Essential Water to collect and report on performance information against.

Essential Water has provided its performance against these output measures in its proposal.¹⁹² Table 9.3 below provides the output measures for the 2022 determination period and Essential Water's average performance over this period.

Table 9.3 Essential Water's output measures for the 2022 determination period

Output measure	IPART's 2022 decision	Average performance over 2022 determination period
Availability of water supply (reliability)	Essential Water to collect information and report on water supply interruptions (frequency, duration and number of customers affected by planned and unplanned interruptions)	Unplanned Frequency: 282 interruptions per annum Duration: 417,464 lost customer minutes per annum Number of customers affected: 1,357 per annum Planned Frequency: 352 interruptions per annum Duration: 135,786 lost customer minutes per annum Number of customers affected: 878 per annum
Water quality	Essential Water to collect information and report on water quality events (frequency and duration of all events out of specification, frequency and duration of selected specific events (such as colour) out of specification) ^c	100% pass against ADWG testing in Broken Hill in 2022-2025 ^d 99.85% pass against ADWG testing in Menindee in 2022-2025 ^e
Response times	This measure has been addressed under customer complaints	
Wastewater performance	Essential Water to collect information and report on wastewater service interruptions (frequency, duration and number of customers affected by planned and unplanned interruptions)	0 wastewater service interruptions per annum
Customer complaints	Essential Water to collect information and report on customer complaints (number by type (as reportable to BOM); response time)	24 complaints per annum, majority relating to water billing and sewer operations Response times unknown, 12.33 average number of days to resolve complaints per annum
Notice periods	Essential Water to continue to collect information and report on notice periods.	100% of time that adequate notice given
Duration of planned interruptions	This measure has been addressed under water supply interruptions and wastewater service interruptions	

^c Essential Water reported there was a fault with the fluoride dosing equipment at Mica Street Water Treatment Plant, which affected the dose. The fault has now been rectified. Essential Water did not specifically report on the frequency and duration on this event that was out of specification, other than the fluoride levels in its quarterly and annual drinking water quality reports.

^d Essential Water reported less than 100% pass for tests for Turbidity, Fluoride and Free Chlorine against the ADWG throughout 2022-2025 in Broken Hill and Menindee. However, at times these have been incorrectly reported and/or compared against incorrect ADWG. The ADWG for Turbidity is < 5 NTU, for Fluoride is < 1.5 mg/L (Essential Water reported against 0.9-1.5 mg/L), and for Free Chlorine is < 5 mg/L (Essential Water reported against 0.2-5 mg/L).

^e 98% pass for pH in 2022, and 92.31% pass for Trihalomethanes in 2024.

Output measure	IPART's 2022 decision	Average performance over 2022 determination period
	Essential Water to collect information and report on notifiable environmental impacts (number by type (as reportable to BOM); response time).	0 notifiable environmental impacts per annum

Source: [Essential Water](#), September 2025, p 32 and IPART analysis.

Appendices

Appendix A >>

Matters considered by IPART



This appendix explains how we considered certain matters we are required to consider under the *Independent Pricing and Regulatory Tribunal Act 1992* (the IPART Act).

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

Where the Tribunal uses a methodology to fix prices, section 14A 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—
 - discount rates, or
 - 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 Consideration of section 14A(2) matters by IPART

Section 14A(2)	Report reference
a. the government agency's economic cost of production	In Chapters 3 and 4 we discuss our analysis and draft decisions on Essential Water's operating and capital expenditure. 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 and wastewater services, and discuss our draft decisions on the levels of expenditure that we consider appropriate to be recovered through Essential Water's maximum prices.
b. past, current or future expenditures in relation to the government monopoly service	In Chapters 3 and 4 we discuss our analysis and draft decisions on Essential Water's operating and capital expenditure. 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 and wastewater services, and discuss our decisions on the levels of expenditure that we consider appropriate to be recovered through Essential Water's maximum prices.
c. charges for other monopoly services provided by the government agency	In Chapter 7 and Appendix D we set out our draft decisions on Essential Water's prices for other monopoly services, including trade waste and miscellaneous charges. In reaching a draft decision on these

Section 14A(2)	Report reference
	charges we considered the efficient costs incurred by Essential Water in providing these services.
<p>d. economic parameters, such as—</p> <ul style="list-style-type: none"> • discount rates, or • movements in a general price index (such as the Consumer Price Index), whether past or forecast 	<p>In Chapter 5 we discuss our draft decisions and approach to indexing Essential Water's regulatory asset base to account for inflation. Chapters 6 and 7 set out how we have set prices to raise revenue that recovers efficient costs over the determination period in net present value terms.</p>
<p>e. a rate of return on the assets of the government agency</p>	<p>In Chapter 5 and Appendix C 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. We calculate a benchmark cost of debt and cost of equity to ensure that the WACC allowance Essential Water receives incentivises its shareholders to invest efficiently. The full calculation of the WACC is provided in Appendix C.</p>
<p>f. a valuation of the assets of the government agency</p>	<p>In Chapter 5 we discuss our draft decisions and approach towards calculating Essential Water's regulatory asset base (RAB). Our draft decisions consider the need to earn an efficient return on Essential Water's RAB (through the WACC) and the annual regulatory depreciation value of that asset base.</p>
<p>g. the need to maintain ecologically sustainable development (within the meaning of section 6 of the <i>Protection of the Environment Administration Act 1991</i>) by appropriate pricing policies that take account of all the feasible options available to protect the environment</p>	<p>In Chapters 3 and 4 we set out Essential Water's efficient expenditure that allows it to meet its known regulatory requirements and environmental obligations. In particular, our draft decisions on the Wills St wastewater treatment plant allow an efficient funding envelope for Essential Water to meet changing environmental regulations.</p>
<p>h. the need to promote competition in the supply of the service concerned</p>	<p>In determining efficient costs, we have been mindful of relevant principles such as competitive neutrality (e.g. we have included a tax allowance for regulatory depreciation). Our building block approach to calculating NRR considers what costs a benchmark firm operating in a competitive market environment would incur in providing its services in Chapter 5. Our draft charges for some customers are however set below full cost recovery, with an associated discussion about the balancing of considerations in Chapter 6.</p>
<p>i. considerations of demand management (including levels of demand) and least cost planning.</p>	<p>In Chapter 6 we explain our assessment of, and draft decisions on, forecast water demand, specifically:</p> <ul style="list-style-type: none"> • the number of customers we expect would receive water services in each year of the 2026 determination period (forecast connections) • the volume of water we expect a water business would provide in each of those years (forecast water sales volumes). <p>Our draft decisions on water demand and forecast sales volumes are used in determining Essential Water's charges over the 2026 determination period.</p>

A.2 Matters under section 15 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 so as to reduce 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 Environmental Administration Act 1991*) by appropriate pricing policies that take account of all the 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.3 Consideration of section 15(1) matters by IPART

Section 15(1)	Report reference
a) cost of providing the services	In Chapters 3 and 4 we discuss our analysis and draft decisions on Essential Water's operating and capital expenditure. 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 and wastewater services, and discuss our draft decisions on the levels of expenditure that we consider appropriate to be recovered through Essential Water's maximum prices.
b) protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services	Our role in setting maximum prices ensures that customers are protected from abuses of monopoly powers through unjustifiably high prices. When setting draft maximum prices, we ensure that Essential Water recovers only the efficient costs of providing its services, and that those services are delivered to an appropriate standard of quality, reliability and safety. Our considerations of efficient costs are discussed in Chapters 3, 4 and 5, while Chapter 6 discusses our consideration of price structures by which the maximum prices would be charged to customers.

Section 15(1)	Report reference
c) 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	In Chapter 5 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. We calculate a benchmark cost of debt and cost of equity to ensure that the WACC allowance Essential Water receives incentivises its shareholders to invest and distribute dividends efficiently. The full calculation of the WACC is provided in Appendix C.
d) effect on general price inflation over the medium term	In Chapter 8 we assess the impact of our draft decisions on general inflation. We estimate the impact of our prices on general inflation is negligible.
e) need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers	In Chapters 3 and 4 we discuss our analysis and draft decisions on Essential Water's efficient level of operating and capital expenditure. To inform our decisions, we engaged independent experts, Stantec, to provide advice on the efficiency of Essential Water's expenditure. We make draft decisions on ongoing cost efficiency targets for Essential Water's operating and capital expenditure which we consider are appropriate, and promote the need for greater efficiency in line with the productivity frontier.
f) the need to maintain ecologically sustainable development (within the meaning of section 6 of the <i>Protection of the Environment Administration Act 1991</i>) by appropriate pricing policies that take account of all the feasible options available to protect the environment	Chapters 3 and 4 set out Essential Water's efficient expenditure that allows it to meet its known regulatory requirements and environmental obligations. In particular, our draft decisions on step changes in capital expenditure related to the Wills St wastewater treatment plant allow an efficient funding envelope for Essential Water to meet changing environmental regulations.
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 Appendix C 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 Chapter 8 we assess the impacts of our draft decisions on Essential Water's financial sustainability, including its ability to finance ongoing interest on its debt.
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	In Chapters 3 and 4 we discuss our draft decisions on the operating and capital expenditure allowances for Essential Water, including on the efficient costs of operational contracts that Essential Water has entered into over the next period.
i) the need to promote competition in the supply of the services concerned	In determining efficient costs in Chapters 5 and 6, we have been mindful of relevant principles such as competitive neutrality (e.g. we have included a tax allowance for regulatory depreciation). In Chapter 5, we discuss our draft decisions on Essential Water's allowances for tax, regulatory depreciation, return on assets, and other price building blocks. 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.
j) considerations of demand management (including levels of demand) and least cost planning	In Chapter 6, we explain our assessment of, and draft decisions on, forecast water demand, specifically: <ul style="list-style-type: none"> • the number of customers we expect would receive water services in each year of the 2026 determination period (forecast connections) • the volume of water we expect a water business would provide in each of those years (forecast water sales volumes). Our draft decisions on water demand and forecast sales volumes are used in determining Essential Water's charges over the 2026 determination period.
k) the social impact of the determinations and recommendations	In Chapter 6 we discuss our draft decisions on price structures to apply in the 2026 determination period, with consideration to likely resulting social impacts.

Section 15(1)	Report reference
	<p>In particular, we considered the impact of water usage charges and the benefits associated with water use in lead dust in Broken Hill, as well as the social impact of full cost recovery prices on residential customers.</p> <p>In Chapter 8 we outline our assessment and consideration of the social impacts of our draft pricing decisions. We discuss the feedback we heard from stakeholders regarding affordability of prices, and assess the impacts of our draft pricing decisions on various socio-economic groups.</p> <p>We extend this analysis to customer groups receiving rebates, and note the current review into the appropriateness of them by NSW Government in Broken Hill and across NSW.</p>
<p>l) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise)</p>	<p>Chapters 3 and 4 set out our draft decisions on Essential Water's efficient expenditure that allows it to deliver upon its standards of quality, reliability and safety. In particular, we consider how major capital projects, including water mains and sewer mains renewal, deliver on improved reliability of services.</p> <p>We further consider Essential Water's current performance and targets of quality, reliability and safety in Chapter 9. We make draft decisions on the performance outcomes, measures and targets that Essential Water should publicly report against over the 2026 determination period. We consider these would provide a reputational incentive for Essential Water to maintain a high standard of service.</p>

A.3 Considerations under section 16 of the IPART Act

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 

Water pricing framework
grading rubric

B

Table B.1 Guidance for customer principles

1. Customer centricity

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

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

2. Customer engagement

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

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

3. Customer outcomes

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

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

4. Community

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

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

5. Environment

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

Standard Expectations	Advanced Additional expectations to Standard	Leading Additional expectations to Advanced
<p>Identify environmental outcomes</p> <ul style="list-style-type: none"> Meet all regulatory requirements, including environmental requirements, at an efficient cost. Follow government directions³⁵ and regulatory obligations. Set environmental outcomes that relate to the provision of regulated services, consistent with customer preferences, community views and waterway quality guidelines. Consider long-term environmental costs/benefits and bill impacts before proposing expenditures. Propose cost-efficient expenditure to manage and adapt to the impacts of climate change. 	<ul style="list-style-type: none"> Actively engage with other regulators, evaluate prospective government directions and obligations from the perspective of promoting the customer's long-term interests. Incorporate climate change into forecasting models and undertake climate change adaptation and mitigation actions. 	<ul style="list-style-type: none"> Demonstrate step change improvements in environmental outcomes, revealed through engagement, which prioritise delivery of environmental outcomes that customers and the community value most.
<p>Environmental outcome performance measures</p> <ul style="list-style-type: none"> Environmental outcomes have targets that are measurable, have intermediate steps and milestones built in (as needed). 	<ul style="list-style-type: none"> Work and partner with community groups, other businesses, stakeholders and government, to propose and deliver outcomes that meet regulatory requirements, promote customer value and provide environmental benefits. 	<ul style="list-style-type: none"> Demonstrate innovative approaches which promote customer value and maximise environmental benefits.
<p>Accountability for environmental outcomes</p> <ul style="list-style-type: none"> Clear mechanisms ensure the business is accountable for delivering environmental outcomes. 	<ul style="list-style-type: none"> Mechanisms include steps the business will take if not meeting targets. 	

³⁵ Government directions are typically made by Ministerial order through the *State Owned Corporations Act 1989* (the SOC Act) or other power under legislation

6. Choice of services

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

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

Table B.2 Cost principles

7. Robust costs

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

Standard Expectations	Advanced Additional expectations to Standard	Leading Additional expectations to Advanced
Justify proposed expenditure		
<ul style="list-style-type: none"> Proposed operating expenditure (opex) is consistent with past expenditure and clearly explains any step changes or trends. Proposed capital expenditure (capex): <ul style="list-style-type: none"> is clearly explained identifies baselines for recurrent expenditure and provides justification for any changes it proposes over time for large capital projects with a clear scope is supported by cost-benefit analysis considering alternative options. 	<ul style="list-style-type: none"> Changes in expenditure are supported by quantitative evidence which demonstrates how it promotes customer value (e.g. in proposing step changes for opex, and justification in business cases for large capital projects). 	<ul style="list-style-type: none"> Proposes opex and capex that maximises customer value, supported by modelling which shows it is below industry benchmarks.
Optimise between opex and capex		
<ul style="list-style-type: none"> Demonstrates consideration has been given to opex and capex trade-offs. 	<ul style="list-style-type: none"> Uses quantitative evidence to show that proposed opex and capex minimises net life-cycle costs. 	<ul style="list-style-type: none"> Takes into account the potential and likelihood for cost saving innovations when proposing a balance of opex and capex.
Accountability for expenditure outcomes		
<ul style="list-style-type: none"> Expenditure performance targets have been identified that maintain compliance with licence conditions, other regulatory requirements, and are consistent with customer preferences. 	<ul style="list-style-type: none"> Demonstrates how performance targets have been developed through customer engagement and deliver customer value. 	<ul style="list-style-type: none"> Has adopted and implemented robust processes so that forecasts are justified, evidence-based and deliverable.

8. Balance risk and long-term performance

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

Standard Expectations	Advanced Additional expectations to Standard	Leading Additional expectations to Advanced
Understand long-term performance <ul style="list-style-type: none"> Investment and asset management decisions demonstrate a balancing of the risks and benefits to the customer and business in terms of long-term asset and service performance. 		
Manage risks and reprioritise <ul style="list-style-type: none"> Demonstrates all cost drivers and has mechanisms to monitor cost risks and reprioritise expenditures and asset management strategies as necessary. Outlines its approach to manage long-term risks, including climate change. 		
	<ul style="list-style-type: none"> Proposal commits to accept more risk where it has benefits for customers. Demonstrates it has organisational resilience to absorb cost impacts arising from changes in the operating environment. 	<ul style="list-style-type: none"> Provides additional evidence optimising this balance of risks, using best practice, probabilistic investment decision and asset management systems. Proposal includes capability and strategies to optimise and manage the value of risk factored into its forecasts and proposals.

9. Commitment to improve value

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

Standard Expectations	Advanced Additional expectations to Standard	Leading Additional expectations to Advanced
Develop cost efficiency strategy <ul style="list-style-type: none"> The business has a management³⁶ approved and externally published cost efficiency strategy that includes: <ul style="list-style-type: none"> an annual 'efficiency factor' across opex and capex productivity improvements achieved and proposed, which highlight that the business is adopting innovations how it has performed against current period targets. 		
Accountability for cost efficiency outcomes <ul style="list-style-type: none"> Has clear mechanisms to ensure the business is accountable for achieving its proposed cost efficiency outcomes. 		
	<ul style="list-style-type: none"> Proposal is informed by cost efficiency strategy, justifies an ambitious annual expenditure 'efficiency factor' and explains reasons for its current performance. 	<ul style="list-style-type: none"> Proposes efficiency targets which would lead to a significant step change in cost efficiencies below historical costs and industry cost benchmarks.

³⁶ Depending on the organisation structure this approval may be Board, Council or executive leadership approval.

10. Equitable and efficient cost recovery

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

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

Table B.3 Credibility principles

Credibility	Requirements (all levels)
<p>11. Delivering Can you provide assurance that you have the capability and commitment to deliver?</p>	<ul style="list-style-type: none"> Proposed expenditures and service outcomes can be delivered in the timeframe proposed. Sets out how progress against key investments and performance targets (both short- and long-term) will be regularly monitored and communicated to its customers. Plans for foreseeable future challenges, including strategies for how it will reprioritise and adapt as changes arise. The proposal has been approved by the Board (or equivalent), who endorse that the proposal would best promote the long-term interests of its customers. The proposal has evidence of a robust assurance process to ensure the veracity of information provided to IPART.
<p>12. Continual improvement Does the proposal identify shortcomings and areas for future improvement?</p>	<ul style="list-style-type: none"> Justified self-assessment Performance targets have been monitored and communicated to customers over the previous period, consistent with past regulatory proposals. You have justified and explained past performance to customers. Demonstrates how experience and lessons from past determination period/s have been integrated into current and future/long-term strategies, where gaps remain, and how future plans will address these. Identifies any shortcomings in its proposals including its plans to address any shortfalls.

Appendix 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.

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

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

Table C.1 sets out the parameters we used to derive Essential Water's 3.6% post tax real WACC.

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

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

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

Source: IPART analysis

C.2 Our methodology to calculate WACC parameters

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

C.2.1 Gearing and beta

In selecting proxy industries, we consider the type of business the firm is in. If we can't 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 that appear similar to water businesses. Our analysis supported continuing to use an equity beta of 0.7 when 60% gearing is used.

Threshold for changed beta

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

- adopt the decision rule that before considering any revision to an established beta value for a price review:
 - prior beta estimate is more than one standard deviation from the mean of the current sample
 - there is persistent evidence over long period (i.e. a regulatory period of four years or longer) of changed beta.¹⁹³

How we estimated beta this time

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

We first estimated the equity beta for the water industry based on a proxy of publicly listed water utilities firms globally classified as Water Utilities (NEC) under The Refinitiv Industry Classification³⁷ at the activity level.

Initially there were 27 stocks in the proxy set. However, only 13 stocks met our criteria³⁸ for estimating equity beta. Based on these 13 firms, the median asset beta was **0.40** (the average is 0.47).

³⁷ The Refinitiv Industry Classification, or The Refinitiv Business Classification as it is also known, is a market based classification of global companies where companies are classified into sectors and industries according to their primary business activities. It allows stakeholders to identify and select groups of comparable companies, facilitating peer group comparisons.

³⁸ IPART's criteria for estimating equity beta considers the industry, firm characteristics, market conditions, operating profile, liquidity, and data quality. A full breakdown of all the criteria questions can be seen in *Table 2.1 Sample selection rule summary*, on page 5 of IPART's *Estimating Equity Beta for the Weighted Average Cost of Capital Final Report*.

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

Threshold for changed beta is not met

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

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

C.2.2 Sampling dates for market observations

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

C.2.3 Tax rate

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

C.2.4 Regulatory period

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

C.2.5 Application of trailing average method

We have not applied a transition to the trailing average in our WACC calculation for this Draft Report. 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.

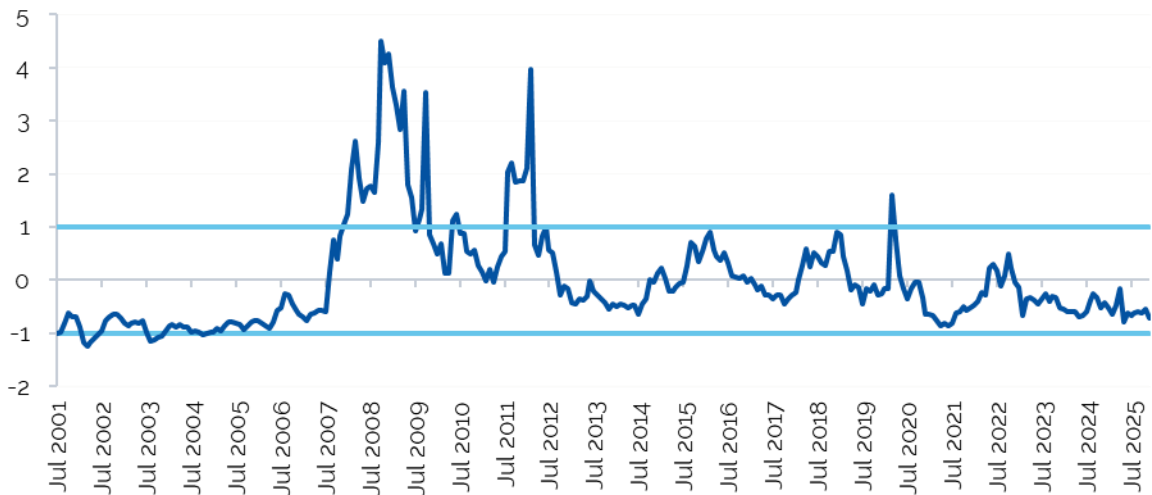
The transition to the trailing average was applied in Essential Water's 2022 determination, so we consider that the businesses is now fully transitioned to the trailing average approach.

C.2.6 Uncertainty index

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

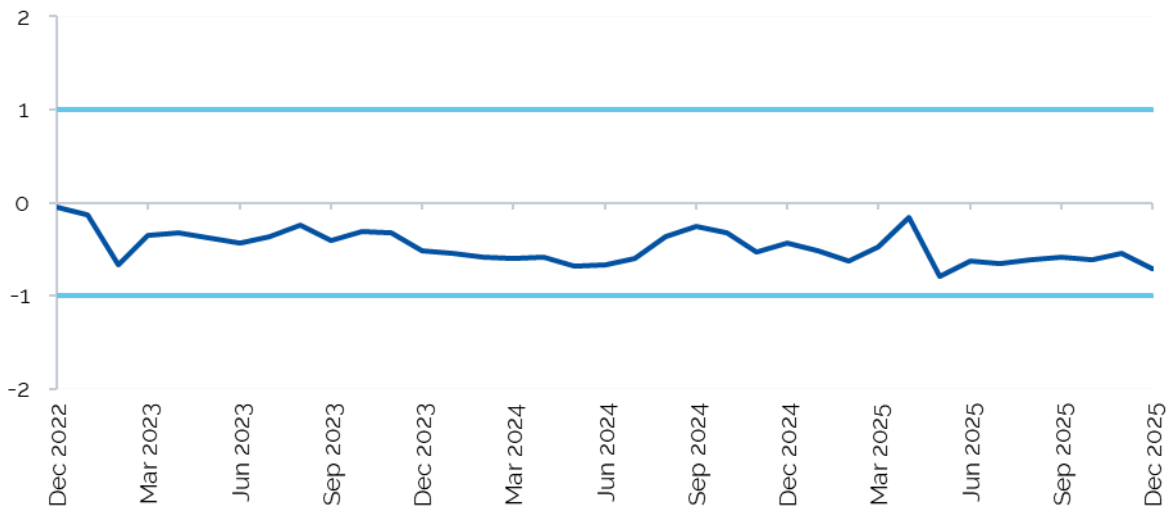
As IPART’s uncertainty index (Figure C.1 and Figure C.2) show, the uncertainty index for market observations to the end of June 2025 (for long term uncertainty) and December 2025 (for short term uncertainty) are within one standard deviation of their mean value. Therefore, we have set our Draft Report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

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



Source: Refinitiv and IPART calculations.

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



Source: Refinitiv and IPART calculations.

Appendix D 

Detailed financial tables

D

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 2026 determination period (\$ millions, \$2025–26)

	Average over 2022 Determination Period						Total
		2026-27	2027-28	2028-29	2029-30	2030-31	
Total NRR proposed by Essential Water	51.9	83.9	63.8	68.2	69.7	72.2	357.8
IPART decision (Building Block components)							
Core operating allowance	15.8	19.6	19.6	19.6	19.6	19.7	98.0
Bulk water costs	24.6	29.7	29.8	29.7	29.7	29.7	148.5
Return on assets	6.4	8.8	10.1	11.4	12.4	12.7	55.4
Regulatory depreciation	4.8	5.3	5.9	6.5	7.0	7.3	32.1
Working capital allowance	0.2	0.1	0.1	0.1	0.2	0.3	0.8
Tax allowance	0.1	0.0	0.0	0.1	0.1	0.2	0.5
Other costs	-0.1	0.6	0.6	0.6	0.6	0.6	2.8
Essential Water total NRR (IPART decision)	51.9	64.0	66.1	67.9	69.6	70.5	338.1
Difference between the proposed and IPART draft decision total NRR		-19.8	2.3	-0.3	-0.1	-1.8	-19.7
Difference between the proposed and IPART draft decision total NRR (%)		-23.7%	3.6%	-0.4%	-0.2%	-2.5%	-5.5%

Note: Totals may not add 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 2026 determination period (\$ millions, \$2025–26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Essential Water proposal	8.3	10.6	11.8	12.5	13.1	56.3
IPART decision	8.8	10.1	11.4	12.4	12.7	55.4
Difference	0.5	-0.5	-0.5	-0.1	-0.4	-0.9
Difference (%)	6.5%	-4.5%	-3.8%	-1.1%	-3.0%	-1.7%

Note: Totals may not add due to rounding.

Source: IPART analysis.

Table D.3 Draft decision on regulatory asset base roll-forward for the 2022 determination period (\$ millions, \$nominal)

	2021-22	2022-23	2023-24	2024-25	2025-26
Opening RAB for Essential Water	142.8	152.4	165.5	171.5	184.4
<i>Plus:</i> Efficient capital expenditure	4.4	7.7	4.4	14.2	19.9
<i>Less:</i> Asset disposals	0.0	0.0	0.0	0.0	0.0
<i>Less:</i> Regulatory depreciation	3.6	4.0	4.7	5.1	5.4
<i>Plus:</i> Indexation	8.8	9.4	6.4	3.8	5.2
Closing RAB	152.4	165.5	171.5	184.4	204.0
Essential Water proposal	Not proposed	174.4	180.9	193.8	223.3
Difference	N/A	-8.9	-9.4	-9.5	-19.3
Difference (%)	N/A	-5.1%	-5.2%	-4.9%	-8.6%

Note: Totals may not add due to rounding. Essential Water's proposed RAB commenced on 1 July 2022.
Source: IPART analysis.

Table D.4 Draft decision on regulatory asset base roll-forward for the 2026 determination period (\$ millions, \$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31
Opening RAB for Essential Water	204.0	265.5	299.8	337.5	355.2
<i>Plus:</i> Adjustment to opening RAB ^a	22.7	0.0	0.0	0.0	0.0
<i>Plus:</i> Efficient capital expenditure	44.2	40.3	44.4	24.8	8.6
<i>Less:</i> Asset disposals	0.0	0.0	0.0	0.0	0.0
<i>Less:</i> Regulatory depreciation	5.4	6.0	6.6	7.2	7.5
<i>Plus:</i> Indexation	0.0	0.0	0.0	0.0	0.0
Closing RAB	265.5	299.8	337.5	355.2	356.3
Essential Water proposal	312.8	373.7	394.9	417.6	433.5
Difference	-47.3	-73.9	-57.3	-62.4	-77.2
Difference (%)	-15.1%	-19.8%	-14.5%	-14.9%	-17.8%

a. The adjustment represents the trued-up value of the tax paid on assets contributed in 2019 that Essential Water did not recover at the time (see Chapter 5).

Note: Totals may not add due to rounding.
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 2026 determination period (\$ millions, \$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Essential Water proposal	5.2	6.3	6.9	7.4	7.8	33.6
IPART decision	5.3	5.9	6.5	7.0	7.3	32.1
Difference	0.1	-0.3	-0.4	-0.4	-0.5	-1.5
Difference (%)	1.6%	-5.4%	-5.6%	-4.8%	-6.4%	-4.5%

Note: Totals may not add 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 2026	
Corporate	12.0
Water	52.0
Wastewater	51.6

Source: IPART analysis

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

	2026-27	2027-28	2028-29	2029-30	2030-31
Corporate	21.6	33.9	44.6	40.4	17.7
Water	58.7	74.3	84.9	92.7	98.6
Wastewater	79.2	79.7	79.8	78.3	77.3

Source: IPART analysis

D.1.4 Working capital allowance

Table D.8 Draft decision for the return on working capital allowance for the 2026 determination period (\$millions, \$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Essential Water proposal	-0.2	0.0	0.2	0.2	0.2	0.4
IPART decision	0.1	0.1	0.1	0.2	0.3	0.8
Difference	0.2	0.1	-0.1	0.0	0.1	0.4
Difference (%)	-130.2%	-442.4%	-47.9%	16.1%	35.8%	103.3%

Note: Totals may not add due to rounding.

Source: IPART analysis

D.1.5 Tax allowance

Table D.9 Draft decision on the tax allowance for the 2026 determination period (\$millions, \$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Essential Water proposal	0.2	0.3	0.3	0.4	0.5	1.6
IPART decision	0.0	0.0	0.1	0.1	0.2	0.5
Difference	-0.2	-0.2	-0.3	-0.3	-0.2	-1.1
Difference (%)	-84.5%	-85.9%	-81.2%	-65.5%	-52.6%	-70.5%

Note: Totals may not add due to rounding.
Source: IPART analysis

D.2 Trade waste charges

Our draft decisions on trade waste charges over the 2026 determination period are set out in the following tables:

Table D.10 Draft decision on fixed trade waste prices (\$2025-26)

	2025-26 (current)	2026-27	2027-28	2028-29	2029-30	2030-31
One-off fees						
Application fee	296.10	296.10	296.10	296.10	296.10	296.10
Reinspection fee	109.94	112.48	112.48	112.48	112.48	112.48
Annual fees						
Category 1 trade waste discharge	119.94	118.39	118.39	118.39	118.39	118.39
Category 1a trade waste discharge	119.94	118.39	118.39	118.39	118.39	118.39
Category 2 trade waste discharge	241.13	236.78	236.78	236.78	236.78	236.78
Category 3 trade waste discharge	807.11	799.15	799.15	799.15	799.15	799.15
Per operating mine	2,010.24	2,010.24	2,010.24	2,010.24	2,010.24	2,010.24
Food waste disposal fee (per bed, per eligible facility)	37.48	41.44	41.44	41.44	41.44	41.44

Note: The method to inflate trade waste prices to \$2025-26 follows the DCCEEW's prescribed methodology of applying the consumer price index (CPI) for Sydney in the preceding 12 months to December, which is an inflation rate of 2.4% for \$2024-25 to \$2025-26. For trade waste prices from 2026-27, the CPI that applies to all other prices will apply (i.e. the CPI for Australia in the preceding 12 months to March).
Source: IPART analysis and Essential Water, Trade Waste Projections 2026-31, October 2025.

Table D.11 Draft decision on volume-based trade waste prices (\$/kL) (\$2025-26)

	2025-26 (current)	2026-27	2027-28	2028-29	2029-30	2030-31
Volume-based prices						
Category 2	1.58	1.80	2.03	2.25	2.25	2.25
Non-compliant volume-based prices						
Category 1	1.58	1.80	2.03	2.25	2.25	2.25

	2025-26 (current)	2026-27	2027-28	2028-29	2029-30	2030-31
Category 1a	1.58	1.80	2.03	2.25	2.25	2.25
Category 2	14.44	16.29	18.32	20.36	20.36	20.36

Note: The method to inflate trade waste prices to \$2025-26 follows the DCCEEW's prescribed methodology of applying the consumer price index (CPI) for Sydney in the preceding 12 months to December, which is an inflation rate of 2.4% for \$2024-25 to \$2025-26. For trade waste prices from 2026-27, the CPI that applies to all other prices will apply (i.e. the CPI for Australia in the preceding 12 months to March). Source: IPART analysis and Essential Water, Trade Waste Projections 2026-31, October 2025.

Table D.12 Draft decision on mass-based trade waste prices (\$/kg) (\$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31
Ammonia (as N)	2.37	2.66	2.96	2.96	2.96
Biochemical oxygen demand (BOD)	0.80	0.90	1.00	1.00	1.00
Cadmium	26.52	29.84	33.15	33.15	33.15
Chromium	26.52	29.84	33.15	33.15	33.15
Copper	16.29	18.32	20.36	20.36	20.36
Cyanide	80.51	90.58	100.64	100.64	100.64
Fluoride	3.98	4.47	4.97	4.97	4.97
Lead	39.78	44.75	49.72	49.72	49.72
Methylene blue active substances (MBAS)	0.80	0.90	1.00	1.00	1.00
Nickel	26.52	29.84	33.15	33.15	33.15
Oil and grease (total O&G)	1.46	1.65	1.83	1.83	1.83
Petroleum hydrocarbons	2.70	3.03	3.37	3.37	3.37
Phosphorous (total P)	1.66	1.86	2.07	2.07	2.07
Suspended solids (SS)	1.04	1.17	1.30	1.30	1.30
Sulphate (SO4)	0.38	0.42	0.47	0.47	0.47
Total dissolved solids (TDS)	0.24	0.27	0.30	0.30	0.30
Nitrogen (total Kjeldahl nitrogen less ammonia) as N	0.80	0.90	1.00	1.00	1.00
Zinc	16.29	18.32	20.36	20.36	20.36
Charge for exceeding approved pH range	As per the Trade Waste Policy				
Charge for exceeding approved BOD range	As per the Trade Waste Policy				
Non-compliant excess mass charge	As per the Trade Waste Policy				

Note: The method to inflate trade waste prices to \$2025-26 follows the DCCEEW's prescribed methodology of applying the consumer price index (CPI) for Sydney in the preceding 12 months to December, which is an inflation rate of 2.4% for \$2024-25 to \$2025-26. For trade waste prices from 2026-27, the CPI that applies to all other prices will apply (i.e. the CPI for Australia in the preceding 12 months to March). Source: IPART analysis and Essential Water, Trade Waste Projections 2026-31, October 2025.

D.3 Miscellaneous charges

Our draft decisions on miscellaneous charges over the 2026 determination period are set out in the following table.

Table D.13 Draft miscellaneous charges (\$2025-26)

No	Miscellaneous customer services	2026-27	2027-28	2028-29	2029-30	2030-31
1	Conveyancing certificate					
	Statement of outstanding charges					
	a) Full certificate with meter read	92.27	92.27	92.27	92.27	92.27
	b) Updated meter read request (special meter read)	69.15	69.15	69.15	69.15	69.15
	c) Urgent full certificate with meter read (within 48 hours)	159.91	159.91	159.91	159.91	159.91
2	Meter test					
	Refunded if meter is \pm 3%	95.90	95.90	95.90	95.90	95.90
3	Drainage diagram	27.05	27.05	27.05	27.05	27.05
4	Plumbing inspection	44.74	44.74	44.74	44.74	44.74
5	Plumber's application	47.79	47.79	47.79	47.79	47.79
6	Site inspection for water and wastewater	153.67	153.67	153.67	153.67	153.67
7	Statement of available water pressure	484.36	484.36	484.36	484.36	484.36
8	Building plan approval – extension	43.17	43.17	43.17	43.17	43.17
9	Building plan approval – new connection	65.23	65.23	65.23	65.23	65.23
10	Fire service application	114.07	114.07	114.07	114.07	114.07
11	Relocation/increase in size of water service (tapping fee)	110.45	110.45	110.45	110.45	110.45
12	Backflow prevention device testing and certification (per hour plus materials)	134.36	134.36	134.36	134.36	134.36
13	Install water service					
	a) 20 mm service up to 3 metres	947.02	947.02	947.02	947.02	947.02
	b) 20 mm service over 3 metres and less than 30 metres	2443.77	2443.77	2443.77	2443.77	2443.77
14	Downgrade meter size from 25mm to 20 mm	134.36	134.36	134.36	134.36	134.36
15	Repair damaged water service					
	a) First repair within 5 year period	Nil	Nil	Nil	Nil	Nil
	b) Second and subsequent repairs (per hour plus materials)	134.36	134.36	134.36	134.36	134.36
16	Rectification of illegal service	296.10	296.10	296.10	296.10	296.10
17	Replace damaged water meter					
	(a) First replacement in a 5 year period	Nil	Nil	Nil	Nil	Nil
	(b) 20 mm	142.42	142.42	142.42	142.42	142.42
	(c) 25 mm	281.11	281.11	281.11	281.11	281.11
	(d) 32 mm	408.54	408.54	408.54	408.54	408.54
	(e) 40 mm	984.49	984.49	984.49	984.49	984.49
	(f) 50 mm	1228.13	1228.13	1228.13	1228.13	1228.13

No	Miscellaneous customer services	2026-27	2027-28	2028-29	2029-30	2030-31
	(g) 80 mm	1349.32	1349.32	1349.32	1349.32	1349.32
18	Water service disconnection					
	a) First disconnect within 1 year period	Nil	Nil	Nil	Nil	Nil
	b) Capping	118.76	118.76	118.76	118.76	118.76
	c) 20 mm to 25 mm	198.66	198.66	198.66	198.66	198.66
	d) Bitumen Repairs (\$ per metre) (minimum 1 metre)	100.00	100.00	100.00	100.00	100.00
19	Water service reconnection					
	a) First reconnect within 1 year period	Nil	Nil	Nil	Nil	Nil
	b) Un-capping	127.44	127.44	127.44	127.44	127.44
	c) 20 mm to 25 mm	213.65	213.65	213.65	213.65	213.65
	d) Bitumen Repairs (\$ per metre) (minimum 1 metre)	100.00	100.00	100.00	100.00	100.00
20	Asset location					
	a) Major or critical infrastructure (per hour)	134.36	134.36	134.36	134.36	134.36
	b) Minor or non-critical initial location	Nil	Nil	Nil	Nil	Nil
	c) Reinspect asset location (per hour)	134.36	134.36	134.36	134.36	134.36
21	Standpipe hire					
	a) Monthly (minimum charge)	39.35	39.35	39.35	39.35	39.35
	b) Annually	472.26	472.26	472.26	472.26	472.26
	c) Water usage charges (\$ per kL)					
	i. Treated	2.25	2.25	2.25	2.25	2.25
	ii. Untreated	2.00	2.00	2.00	2.00	2.00
	d) Connection fee (to cover account set up, key and swipe card)	39.35	39.35	39.35	39.35	39.35
22	Personal service of final warning notice	26.92	26.92	26.92	26.92	26.92
23	Water reconnections – after restrictions					
	a) during business hours	134.36	134.36	134.36	134.36	134.36
	b) outside business hours	192.65	192.65	192.65	192.65	192.65
24	Reprint of statement and send by mail	35.33	35.33	35.33	35.33	35.33

D.4 Bill impacts

Table D.14 Bill impacts for Essential Water's proposed prices and our draft prices for filtered water and wastewater (\$2025-26)^a

	Water usage (kL/year)	2025-26 Current	2026-27	2027-28	2028-29	2029-30	2030-31
Essential Water proposed							
Modest user – house	200	1,512	1,764	2,054	2,389	2,775	3,220
Annual change			16.7%	16.5%	16.3%	16.2%	16.0%
Typical user – house	250	1,624	1,877	2,167	2,502	2,888	3,333
Annual change			15.5%	15.5%	15.4%	15.4%	15.4%
Large user	400	1,962	2,214	2,504	2,839	3,225	3,670
Annual change			12.9%	13.1%	13.4%	13.6%	13.8%
Pensioner household (couple) – receives a rebate	130	1,179	1,437	1,731	2,070	2,460	2,909
Annual change			21.8%	20.5%	19.6%	18.8%	18.2%
Pensioner couple – without a pensioner rebate	130	1,354	1,607	1,897	2,232	2,618	3,063
Annual change			18.6%	18.1%	17.6%	17.3%	17.0%
Pensioner single) – receives a rebate	90	1,089	1,347	1,641	1,980	2,370	2,819
Annual change			23.6%	21.9%	20.6%	19.7%	18.9%
Pensioner single – without a pensioner rebate	90	1,264	1,517	1,807	2,142	2,528	2,973
Annual change			20.0%	19.1%	18.5%	18.0%	17.6%
Draft decision							
Modest user – house	200	1,512	1,587	1,667	1,750	1,838	1,929
Annual change			5.0%	5.0%	5.0%	5.0%	5.0%
Typical user – house	250	1,624	1,700	1,779	1,863	1,950	2,042
Annual change			4.7%	4.7%	4.7%	4.7%	4.7%
Large user	400	1,962	2,037	2,117	2,200	2,288	2,379
Annual change			3.9%	3.9%	3.9%	4.0%	4.0%
Pensioner couple – without a pensioner rebate	130	1,179	1,260	1,343	1,431	1,522	1,618
Annual change			6.8%	6.6%	6.5%	6.4%	6.3%
Pensioner couple- receives a rebate	130	1,354	1,430	1,509	1,593	1,680	1,772
Annual change			5.6%	5.6%	5.5%	5.5%	5.5%
Pensioner single – without a pensioner rebate	90	1,089	1,170	1,253	1,341	1,432	1,528
Annual change			7.4%	7.1%	7.0%	6.8%	6.7%
Pensioner single – receives a rebate	90	1,264	1,340	1,419	1,503	1,590	1,682
Annual change			6.0%	5.9%	5.9%	5.8%	5.8%

a. Changes are between 2025-26 and 2030-31 and do not include inflation.

Table D.15 Bill impacts of Essential Water's proposed prices and draft prices on filtered water usage charges for renters (\$2025-26)^a

	Water usage (kL/year)	2025-26 Current	2026-27	2027-28	2028-29	2029-30	2030-31
Draft decision and Essential Water proposed							
Modest user – house	200	450	450	450	450	450	450
Annual change			0.0%	0.0%	0.0%	0.0%	0.0%
Typical user – house	250	563	563	563	563	563	563
Annual change			0.0%	0.0%	0.0%	0.0%	0.0%
Large user	400	900	900	900	900	900	900
Annual change			0.0%	0.0%	0.0%	0.0%	0.0%
Pensioner couple – without a pensioner rebate	130	293	293	293	293	293	293
Annual change			0.0%	0.0%	0.0%	0.0%	0.0%
Pensioner single – without a pensioner rebate	90	203	203	203	203	203	203
Annual change			0.0%	0.0%	0.0%	0.0%	0.0%

a. The current rebate is only available to pensioners who own their home and not available to renters.

Note: Changes are between 2025-26 and 2030-31 and do not include inflation.

Table D.16 Bill impacts for Essential Water's proposed prices and our draft prices for chlorinated water and wastewater (\$2025-26)

	Water usage (kL/year)	2025-26 Current	2026-27	2027-28	2028-29	2029-30	2030-31
Essential Water proposed							
Modest user – house	200	1,456	1,708	1,998	2,333	2,719	3,164
Annual change			17.3%	17.0%	16.7%	16.6%	16.4%
Typical user – house	250	1,554	1,807	2,097	2,432	2,818	3,263
Annual change			16.2%	16.1%	16.0%	15.9%	15.8%
Large user	400	1,850	2,102	2,392	2,727	3,113	3,558
Annual change			13.6%	13.8%	14.0%	14.2%	14.3%
Pensioner couple – receives a rebate	130	1,143	1,400	1,695	2,033	2,423	2,872
Annual change			22.5%	21.0%	20.0%	19.2%	18.5%
Pensioner couple – without a pensioner rebate	130	1,318	1,570	1,861	2,195	2,581	3,026
Annual change			19.1%	18.5%	18.0%	17.6%	17.2%
Pensioner single – receives a rebate	90	1,064	1,321	1,616	1,955	2,345	2,793
Annual change			24.2%	22.3%	21.0%	20.0%	19.1%

	Water usage (kL/year)	2025-26 Current	2026-27	2027-28	2028-29	2029-30	2030-31
Pensioner single – without a pensioner rebate	90	1,239	1,491	1,782	2,116	2,503	2,947
Annual change			20.4%	19.5%	18.8%	18.2%	17.8%
Draft decision							
Modest user – house	200	1,456	1,531	1,611	1,694	1,782	1,873
Annual change			5.2%	5.2%	5.2%	5.2%	5.2%
Typical user – house	250	1,554	1,630	1,709	1,793	1,880	1,972
Annual change			4.9%	4.9%	4.9%	4.9%	4.9%
Large user	400	1,850	1,925	2,005	2,088	2,176	2,267
Annual change			4.1%	4.1%	4.2%	4.2%	4.2%
Pensioner couple – without a pensioner rebate	130	1,143	1,223	1,307	1,394	1,486	1,581
Annual change			7.0%	6.8%	6.7%	6.6%	6.4%
Pensioner single- receives a rebate	130	1,318	1,393	1,473	1,556	1,644	1,735
Annual change			5.7%	5.7%	5.7%	5.6%	5.6%
Pensioner single- receives a rebate	90	1,064	1,145	1,228	1,315	1,407	1,503
Annual change			7.6%	7.3%	7.1%	7.0%	6.8%
Pensioner single – without a pensioner rebate	90	1,239	1,315	1,394	1,477	1,565	1,657
Annual change			6.1%	6.0%	6.0%	5.9%	5.9%

Note: Changes are between 2025-26 and 2030-31 and do not include inflation.

Table D.17 Bill impacts of Essential Water's proposed prices and draft prices for water and wastewater charges on landlords^a (\$2025-26)^b

	2025-26 Current	2026-27	2027-28	2028-29	2029-30	2030-31
Essential Water proposed						
House	1,062	1,314	1,604	1,939	2,325	2,770
Annual change		23.8%	22.1%	20.9%	19.9%	19.1%
Apartment	1,062	1,314	1,604	1,939	2,325	2,770
Annual change		23.8%	22.1%	20.9%	19.9%	19.1%
Draft decision						
House	1,062	1,137	1,217	1,300	1,388	1,479
Annual change		7.1%	7.0%	6.8%	6.7%	6.6%
Apartment	1,062	1,137	1,217	1,300	1,388	1,479
Annual change		7.1%	7.0%	6.8%	6.7%	6.6%

a. Landlords that lease separately metered properties. Fixed service charges only; the lessee pays the water usage charges.

b. Changes are between 2025-26 and 2030-31 and do not include inflation.

Table D.18 Draft bill impacts for typical non-residential customers (\$2025-26)

Customer	Meter size (mm)	Water usage (kL/year)	2025-26 Current	2026-27	2027-28	2028-29	2029-30	2030-31	Average change per year (%)
Industrial – low	25	1,000	4,804	5,344	5,500	5,667	5,848	6,042	4.7%
Industrial – medium	40	2,100	10,748	12,130	12,529	12,958	13,421	13,918	5.3%
Industrial – high	80	21,000	85,454	90,981	92,578	94,293	96,145	98,135	2.8%
Commercial – low	20	250	1,760	2,106	2,205	2,313	2,428	2,553	7.7%
Commercial – medium	25	1,000	4,804	5,344	5,500	5,667	5,848	6,042	4.7%
Commercial – high	40	2,100	10,748	12,130	12,529	12,958	13,421	13,918	5.3%
Public hospital – medium	80	20,000	82,084	87,611	89,208	90,923	92,775	94,765	2.9%
Public hospital – high	100	25,000	107,193	115,829	118,325	121,005	123,898	127,008	3.5%
Private school – low	50	8,000	32,696	34,855	35,479	36,149	36,872	37,649	2.9%
Private school – medium	80	20,000	82,084	87,611	89,208	90,923	92,775	94,765	2.9%
Private school – high	100	30,000	124,043	132,679	135,175	137,855	140,748	143,858	3.0%
Commercial strata unit – low	20	150	1,423	1,769	1,868	1,976	2,091	2,216	9.3%
Commercial strata unit – medium	25	200	2,108	2,648	2,804	2,971	3,152	3,346	9.7%
Commercial strata unit – high	40	300	4,682	6,064	6,463	6,892	7,355	7,852	10.9%
Industrial strata unit – low	20	150	1,423	1,769	1,868	1,976	2,091	2,216	9.3%
Industrial strata unit – medium	25	200	2,108	2,648	2,804	2,971	3,152	3,346	9.7%
Industrial strata unit – high	40	300	4,682	6,064	6,463	6,892	7,355	7,852	10.9%

a. Changes are between 2025-26 and 2030-31 and do not include inflation.

Note: Bill impacts for non-residential customers exclude trade waste charges.

Source: IPART analysis.

Table D.19 Bill impacts for our draft prices for mining customers (\$'000, 2025-26)

	Water usage kL/ year	2025-26 Current	2026- 27	2027- 28	2028- 29	2029- 30	2030- 31	Average change per year (%)
Perilya Ltd								
Water	3,434	6,310	7,817	7,980	8,146	8,320	8,496	6.1%
Wastewater		60	64	67	70	73	77	5.2%
Total		6,369	7,882	8,047	8,216	8,393	8,573	6.1%
BHM Ltd								
Water	512	1,206	1,569	1,609	1,649	1,691	1,733	7.5%
Wastewater		35	40	42	45	49	52	8.3%
Total		1,241	1,609	1,651	1,694	1,739	1,785	7.6%

Notes: Changes are between 2025-26 and 2030-31 and do not include inflation. Bill impacts for non-residential customers exclude trade charges. Totals may not add due to rounding.

D.5 Affordability analysis

The following key can be used as a visual guide for the bill impacts set out in Tables D.20 to D.22.

■ Low Water Stress
 ■ 3% Water Stress Threshold
 ■ High Water Stress

Table D.20 Affordability ratios for owner-occupier households of different socio-economic groups under draft prices

Customer type	Annual income	Water usage (kL/year)	2025- 26	2026- 27	2027- 28	2028- 29	2029- 30	2030- 31
Typical house	71,684	250	2.3%	2.4%	2.5%	2.6%	2.7%	2.8%
Typical apartment	71,684	120	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%
House - large household	71,684	400	2.7%	2.8%	3.0%	3.1%	3.2%	3.3%
House - small household	71,684	100	1.8%	1.9%	2.0%	2.1%	2.2%	2.4%
Income Quartiles								
Low income household	39,612	200	3.8%	4.0%	4.2%	4.4%	4.6%	4.9%
Lower middle income household	57,896	230	2.7%	2.9%	3.0%	3.1%	3.3%	3.4%
Higher middle income household	114,269	260	1.4%	1.5%	1.6%	1.6%	1.7%	1.8%
Higher income household	152,360	300	1.1%	1.2%	1.2%	1.3%	1.4%	1.4%
Low income quartile with typical household use	39,612	250	4.1%	4.3%	4.5%	4.7%	4.9%	5.2%
Low Income - large household	39,612	400	5.0%	5.1%	5.3%	5.6%	5.8%	6.0%
High income - large household	152,360	400	1.3%	1.3%	1.4%	1.4%	1.5%	1.6%

Customer type	Annual income	Water usage (kL/year)	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Low income health care card eligible household - couple	72,592	130	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%
Low income card - single without child	41,444	90	3.1%	3.2%	3.4%	3.6%	3.8%	4.1%
Low income typical apartment use	39,612	120	3.4%	3.6%	3.8%	4.0%	4.2%	4.4%

Table D.21 Affordability ratios for renter households of different socio-economic groups under draft prices

Household	Yearly income	Water usage kL/year	2025-26	2025-26	2026-27	2027-28	2028-29	2030-31
Typical house	71,684	250	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Typical apartment	71,684	120	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
House - large household	71,684	400	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
House - small household	71,684	100	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Low income household	39,612	200	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Low income - large household	39,612	400	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
Age or disability pensioner - couple	46,202	130	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Age or disability pensioner - single	30,646	90	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
Jobseeker - single, no children	20,862	120	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
Jobseeker - single, with dependent	22,344	120	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Jobseeker - couple, 2 children	38,189	250	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%

Table D.22 Affordability ratios for other owner-occupier households that may experience vulnerability and are not eligible for rebates under draft prices

Household	Yearly income	Water usage kL/year	2025-26	2025-26	2026-27	2027-28	2028-29	2030-31
Parenting payment - couple without rebate	38,189	200	4.0%	4.2%	4.4%	4.6%	4.8%	5.1%
Jobseeker - Single, no children without rebate	20,862	90	6.1%	6.4%	6.8%	7.2%	7.6%	8.1%
Jobseeker - couple without rebate	38,189	130	3.5%	3.7%	4.0%	4.2%	4.4%	4.6%
Jobseeker - couple, 2 children without rebate	38,189	250	4.3%	4.5%	4.7%	4.9%	5.1%	5.3%
Family Tax Benefit Part A without rebate	66,722	250	2.4%	2.5%	2.7%	2.8%	2.9%	3.1%

D.6 Financeability assessment

We calculated Essential Water's financeability indicators based on the NRR and prices under our draft decisions. The following tables outline our benchmark tests of financial sustainability for Essential Water under our draft decisions.

Table D.23 Benchmark financeability test results based on our draft decisions if the revenue gap is fully funded from external sources

	Target ratio	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Real interest cover	(higher is better)						
Benchmark test	>2.2x	3.7	3.3	3.2	3.1	3.2	3.5
Does it meet the target?		yes	yes	yes	yes	yes	yes
Real FFO over debt	(higher is better)						
Benchmark test	>7.0%	4.9%	6.5%	6.2%	5.9%	6.1%	6.8%
Does it meet the target?		no	no	no	no	no	no
Real gearing							
Benchmark test	<70%	60%	60%	60%	60%	60%	60%
Does it meet the target?	(lower is better)	yes	yes	yes	yes	yes	yes

Table D.24 Benchmark financeability test results based on our draft decisions if the revenue gap is unfunded

	Target ratio	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Real interest cover	(higher is better)						
Actual test	>2.2x	3.7	2.6	2.4	2.2	2.2	2.2
Does it meet the target?		yes	yes	yes	yes	yes	yes
Real FFO over debt	(higher is better)						
Actual test	>7.0%	4.9%	4.6%	4.0%	3.5%	3.3%	3.4%
Does it meet the target?		no	no	no	no	no	no
Real gearing	(lower is better)						
Actual test	<70%	60%	60%	60%	60%	60%	60%
Does it meet the target?		yes	yes	yes	yes	yes	yes

Essential Water's benchmark ratios for the FFO over debt ratio are below the target over the 2026 determination period. However, we do not consider that this reflects a financeability concern for the 2026 determination period because, where the revenue gap between target revenue and prices (the revenue gap) are externally funded:

- The trend in the FFO over debt ratio improves over the determination period and reaches 6.7% (target of >7%) in the final year. Previously, we have been clear that if the trend in this ratio shows an improvement over the determination period, then we would assess that the business may not have a financeability concern.

-
- The real interest cover ratio for Essential Water exceeds the target of 2.2x over the 2026 determination period. Under our draft decisions, Essential Water is expected to receive enough free cash flow to pay its real interest more than three times over.

If the revenue gap is unfunded, our benchmark test suggests that Essential Water may face financeability concerns, especially towards the end of the determination period. Our analysis shows that both the FFO over debt ratio and the real interest cover ratio decline over the period.

Appendix E >>

Pricing options



E

E.1 Full cost recovery (excluding bulk water)

Table E.1 Full cost recovery– step glide path – water charges (\$2025-26)

Charges	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	% change 2025-26 to 2030-31
Service Charges (\$/year)							
Residential	409.39	624.05	647.23	670.88	695.55	720.72	76.0%
Non-residential							
20 mm connection	409.39	624.05	647.23	670.88	695.55	720.72	76.0%
Other sizes	$(\text{Meter size in mm})^2 \times (\text{water service charge for a 20 mm Meter for the Period})$						
	400						
Mines (\$'000/year)							
Perilya Ltd.	2,875.55	4,383.28	4,546.10	4,712.26	4,885.55	5,062.31	76.0%
BHM Ltd.	693.62	1,057.31	1,096.58	1,136.66	1,178.46	1,221.10	76.0%
Usage Charges (\$/kL)							
Treated	2.25	2.25	2.25	2.25	2.25	2.25	0.0%
Chlorinated	1.97	1.97	1.97	1.97	1.97	1.97	0.0%
Untreated – Pipeline	1.67	1.77	1.87	1.97	1.97	1.97	18.0%
Untreated – non-pipeline	1.97	1.97	1.97	1.97	1.97	1.97	0.0%

Table E.2 Full cost recovery– step-glide path – wastewater charges (\$2025-26)

Charges	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	% change 2025-26 to 2030-31
Residential (\$/year)							
Deemed usage charge	160.00	160.00	160.00	160.00	160.00	160.00	0%
Service charge – adjusted	492.33	620.86	695.31	776.47	864.92	961.32	95.3%
Total wastewater charge (access + discharge allowance)	652.33	780.86	855.31	936.47	1,024.92	1,121.32	71.9%
Non-residential – unadjusted (\$/year)							
20 mm connection	726.20	913.03	1,022.52	1,141.86	1,271.94	1,413.71	94.7%
Other sizes	$\frac{(\text{Meter size in mm})^2 \times (\text{water service charge for a 20 mm Meter for the Period})}{400}$						
Non-residential usage charge (\$/kL)	1.60	1.60	1.60	1.60	1.60	1.60	0%

E.2 5% capped annual price increase for residential customers

Table E.3 Water charges under 5% capped annual price increases for residential customers (\$2025-26)

Charges	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	% change 2025-26 to 2030-31
Service Charges (\$/year)							
Residential	409.39	489.90	509.41	528.42	547.14	565.33	38.1%
Non-residential							
20 mm connection	409.39	624.05	647.23	670.88	695.55	720.72	76.0%
Other sizes	$\frac{(\text{Meter size in mm})^2 \times (\text{water service charge for a 20 mm Meter for the Period})}{400}$						
Mines (\$'000/year)							
Perilya Ltd	2,875.55	4,383.28	4,546.10	4,712.26	4,885.55	5,062.31	76.0%
BHM Ltd	693.62	1,057.31	1,096.58	1,136.66	1,178.46	1,221.10	76.0%
Usage Charges (\$/kL)							
Treated	2.25	2.25	2.25	2.25	2.25	2.25	0.0%
Chlorinated	1.97	1.97	1.97	1.97	1.97	1.97	0.0%

Charges	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	% change 2025-26 to 2030- 31
Untreated – Pipeline	1.67	1.77	1.87	1.97	1.97	1.97	18.0%
Untreated – Non-pipeline	1.97	1.97	1.97	1.97	1.97	1.97	0.0%

Table E.4 Wastewater charges under 5% capped annual price increases for residential customers (\$2025-26)

Charges	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	% change 2025-26 to 2030- 31
Residential (\$/year)							
Deemed usage charge	160.00	160.00	160.00	160.00	160.00	160.00	0%
Service charge – adjusted	492.33	487.40	547.26	611.58	680.37	754.06	53.2%
Total wastewater charge (access + discharge allowance)	652.33	647.40	707.26	771.58	840.37	914.06	40.1%
Non-residential – unadjusted (\$/year)							
20 mm connection	726.20	913.03	1,022.52	1,141.86	1,271.94	1,413.71	94.7%
Other sizes	$\frac{(\text{Meter size in mm})^2 \times (\text{water service charge for a 20 mm Meter for the Period})}{400}$						
Non-residential usage charge (\$/kL)	1.60	1.60	1.60	1.60	1.60	1.60	0%

Appendix F >>

Pricing proposal assessment



F

Summary of draft decisions on Essential Water's pricing proposal grading

We grade Essential Water's pricing proposal as Standard

Our draft decision is to grade Essential Water's pricing proposal as Standard, consistent with our preliminary grading and with Essential Water's self-assessment.

We have found that Essential Water has met the guiding principles of our water pricing framework for a Standard pricing proposal.

IPART sets maximum prices that Essential Water can charge its customer for water and wastewater services, under the *Independent Pricing and Regulatory Tribunal Act 1992*. In setting these maximum prices, we assess Essential Water's pricing proposal and make decisions to protect customers from the abuse of monopoly powers and promote their long-term interests.

This appendix explains the reasons for our draft grading of Essential Water's proposal as Standard.

F.1 We applied our water regulation framework

When assessing Essential Water's proposal, we used our [Water Regulation Handbook](#) which includes a 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.

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

- promote their customers' interests
- demonstrate that customer needs and preferences are delivered in the most cost-efficient manner
- enhance their business' credibility.

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

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

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



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

We recognise this is the first time Essential Water has submitted a pricing proposal under the framework, which we are continuing to improve with the help of all stakeholders to achieve our common goal of delivering customer value.

Chapters 3 to 9 detail how we assessed each aspect of Essential Water's pricing proposal. However, ultimately, we assess the quality of Essential Water's pricing proposal based on the grading rubric outlined in Appendix B, which informs how we undertake our price review. There are 3 possible grades for the pricing proposal: Standard, Advanced or Leading (see Box F.1). A Standard grading means we will conduct our usual comprehensive assessment of the pricing proposal while an advanced proposal may require less intensive examination where extensive and well-justified evidence is provided.

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

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

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

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

F.2 Essential Water self-assessed its proposal as Standard

Essential Water self-assessed its proposal as Standard and identified 4 focus principles from our water regulation framework that it considered reflected the most important current priorities for its customers. These focus principles were given greater emphasis in our review of the proposal compared to the other principles. Essential Water's focus principles included:

- 2 customer focus principles:
 - customer centricity
 - customer engagement.
- 2 cost focus principles:
 - robust costs
 - balance risk and long-term performance.¹⁹⁴

In making its self-assessment, Essential Water told us it has consulted widely with its customers and stakeholders in the development of its proposal and has shaped its proposal around what customers have told Essential Water is important to them. Essential Water said its customers informed its key priorities, and that its focus principles reflect customer preferences and its long-term plan. Further, it states its outcomes and performance measures reflect its customer preferences and has set realistic targets and is ensuring reporting to be held accountable for its performance.¹⁹⁵

On cost principles, Essential Water told us its proposed expenditure reflects customers' preferences and that it focuses on providing essential services. This includes providing upgraded water mains and wastewater treatment facilities to customers efficiently over the long-term, appropriately balancing risk and long-term performance while complying with its regulatory obligations. It has told us that it recognises its customers limited capacity to pay more than current bills, however without higher levels of expenditure, it cannot appropriately deliver the essential water and wastewater services needed for its community.¹⁹⁶ Essential Water has developed a cost efficiency strategy and set a cost efficiency target over the upcoming determination period.¹⁹⁷

On credibility principles, Essential Water told us it has demonstrated in the past that it can reprioritise expenditure if required in response to changing or unforeseen circumstances.¹⁹⁸ It has noted that its proposal has been subject to a quality assurance process and has been approved by its Board.¹⁹⁹ Essential Water has told us it continues to strive for improvements to its asset management and planning practices.²⁰⁰

Essential Water self-assessed its proposal against each of the 12 guiding principles. For more information, see Appendix A of [Essential Water's pricing proposal](#).

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

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

Our preliminary grading for Essential Water was Standard (see our [2025 Essential Water and the Murray Rive to Broken Hill pipeline price review – Issues Paper](#)). As a result, we took a standard approach to our price review process, which includes a detailed review of Essential Water's expenditure. Our draft decisions to Essential Water's efficient expenditure are set out in Chapters 3 and 4 of this report.

F.4 We graded Essential Water's proposal as Standard

Our draft decision is:



30. To grade Essential Water's pricing proposal as Standard.

Our reasons for a Standard grading



Customers

Over a well-organised, multi-phased and multi-faceted customer engagement program, Essential Water developed a comprehensive understanding of its customers' key priorities. It then developed customer outcomes based on these key priorities.

Essential Water undertook engagement with a diverse group of customers and stakeholders using new and existing engagement channels, committing to ongoing engagement. Essential Water provided genuine opportunities for customers to influence its proposal for discretionary investment relating to areas that matter to them.

While many aspects of Essential Water's customer engagement were meaningful, some elements could be improved for the next price review. These include allowing for more discussion regarding large expenditure items which were presented as not optional, and utilising its survey or other similar engagement methods throughout the entire engagement program rather than only at its commencement.



Costs

Essential Water demonstrated a commitment to improving its efficiency through integrating a cost efficiency strategy into its pricing proposal. However, Essential Water's proposed costs, specifically its capital costs, included expenditure which could be deferred or reconsidered. We consider that its costs are focused at a project level, rather than demonstrating an integrated planning approach at a portfolio level, reflecting the size and maturity of the water business.

We found that some of Essential Water's expenditure could be reasonably reprofiled to later in the determination period, and its capital projects be lowered to optimise customer value.



Credibility

The credibility of Essential Water's proposal is supported by a clear path towards meeting customer outcomes and achieving cost efficiency. Essential Water has shown a credible commitment on areas of improvement that are of value to customers.

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

Our draft decision is to agree with Essential Water's self-assessment of its pricing proposal and maintain our preliminary Standard grading.

In making this draft decision we considered that:

Essential Water's multi-phase customer engagement program led to meaningful engagement on several topics. In collaboration with its customers through its Customer Panel and survey, Essential Water developed its customer outcomes based on the priorities that mattered most to its customers:

- water reliability – reliable access to drinking water
- water quality – clean and safe drinking water
- sustainability and environmental protection
- good customer service.

We note these outcomes generally align with Essential Water's 'business as usual' operations, as it needs to comply with drinking water guidelines and environmental obligations.

Essential Water presented a large amount of expenditure as non-discretionary. The projects which were consulted on did not have equally robust business cases and thus reflective costs associated with them. The Customer Panel was understanding and supportive of the 'must do' expenditure and accepting of the nature of the costs²⁰¹, and were able to influence other expenditure items relating to each customer outcome. Customers considered the value of individual investment options and then as a suite of total investments and were provided the impacts of investments on bills. The Customer Panel helped to shape proposed expenditure, and this was reflected in Essential Water's proposal.

Essential Water has proposed performance measures and associated targets relating to each customer outcome that aim to maintain its current performance. This recognises its customers' preference to maintain service and performance levels rather than increase them for an additional cost.²⁰² We considered that Essential Water proposed appropriate outcome measures which could be improved and added to. This would improve customer transparency on Essential Water's performance against customer and community outcomes. We also considered that there was scope to broaden Essential Water's performance reporting in the interest of increasing customer and community transparency. In Chapter 9 we make recommendations on additional measures that Essential Water could report on to give customers a more complete picture of its performance against key outcomes.

While we found that Essential Water's costs included expenditure that could be deferred or reconsidered, it still presented a credible path towards cost-efficiency in its pricing proposal. Essential Water has incorporated a reasonable efficiency factor of 0.5% per year.

F.5 We reviewed Essential Water's customer engagement

Under the water regulation framework, we assess each water businesses' customer engagement and the extent to which its engagement has informed customer-focused pricing proposals. We do not prescribe a method by which a business should engage with its customers. We do, however, expect that a business demonstrates how it would engage with its customers in a meaningful way to understand its customers' needs and preferences, and that these insights are used to inform its proposal.

In undertaking our assessment, we applied our water grading rubric (see Appendix B) for customer engagement which requires a water business to demonstrate how it:

- engaged on what matters
- chose appropriate engagement methods
- engaged effectively.

We also referred to the IAP2 Public Participation Spectrum^a to understand the levels of influence customers may have in an engagement process. We recognise that different levels of participation are legitimate depending on goals, time frames, resources and levels of understanding and concern in the decision to be made. We also recognise the time and resources needed to prepare and inform participants influences their participation in the engagement and influence on decisions.

F.5.1 Essential Water undertook a multi-phased, multi-faceted engagement program

Essential Water delivered a well-organised and iterative customer engagement program, comprising 3 phases between April 2024 and June 2025. Its engagement on its pricing proposal covered 3 main areas:

- customer, community and environmental preferences, outcomes and performance measures, including discussion around lead dust suppression, subsidies and rebates
- what customers are willing to pay for on top of baseline bill increases (due to non-discretionary spending), which was decided by customers choosing between investment options that related to their priorities
- customer interaction and experience, including communication, engagement and transparency.

^a The IAP2 Public Participation Spectrum is designed to assist with the selection of the level of participation that defines the public's role in a community engagement program. The levels of participation are based on the impact the public could have on decision making. From low to high levels of impact the levels include; 'inform', 'consult', 'involve', 'collaborate' and 'empower' (see [IAP2 Public Participation Spectrum, 2018](#)).

The 3 engagement stages were:

1. hearing directly from customers and stakeholders about their priorities and desired outcomes, including for the long-term
2. sharing 'must-do' or non-discretionary investments, exploring optional investments for meeting customer priorities and outcomes based on phase 1 (including presenting bill impacts of individual investment options), and seeking customer feedback and preferences
3. working with customers and stakeholders to refine and finalise 2026-31 plans, including sharing the total bill impacts of the suite of 'must-do' and customer preferred optional investments, and deliberating and sharing on final customer preferences to be included in the proposal.²⁰³

Essential Water used a variety of methods including a customer-wide survey, in-person community events, online engagement, stakeholder meetings and the establishment of a Customer Panel, and sought input from customers, community members, internal and external stakeholders, and experts.

F.5.2 Essential Water's customer engagement program was effective

Our analysis found that Essential Water's customer engagement program was effective.

We reviewed Essential Water's customer engagement strategy, independent reports on its Customer Panel meetings and Customer Panel end of session feedback. This helped us to understand what topics Essential Water consulted on, the methods it used, the range of customers engaged with and the engagement results.

Essential Water involved its customers in setting priorities

Essential Water's engagement consisted of a mixture of existing and new engagement channels to seek broad and in-depth feedback from a diverse group of customers and stakeholders. Essential Water actively included representation from different customer segments in its engagement activities, such as both homeowners and renters, people of different genders, ages and incomes, First Nations peoples, and individuals experiencing vulnerability.²⁰⁴ Essential Water consulted, involved and collaborated with customers through its customer engagement channels.

In phase 1, Essential Water sought to understand customer priorities and participated in the AgFair in Broken Hill, wrote to stakeholders, held a customer-wide survey and held its first Customer Panel meeting. Using what was heard throughout phase 1, Essential Water identified potential options for meeting customer priorities and outcomes.

Phase 2 sought to explore investment options and customer preferences and incorporated this feedback on potential options. Phase 2 included Customer Panel meetings 2 and 3, meetings with stakeholders and holding a pop-up engagement session in the Menindee community.

In phase 3, Essential Water refined and finalised its plans through its fourth and final customer panel meeting and reflected customer and stakeholder feedback into its proposal before its submission to IPART. Essential Water will continue to engage with customers and stakeholders as business as usual, seeking ongoing feedback on how it is performing against meeting desired outcomes.²⁰⁵

Essential Water's Customer Panel was independent and targeted

Essential Water has confirmed that Customer Panel deliberations were independently facilitated by Hall & Partners. Essential Water established its Customer Panel to engage closely with a representative group of customers on a regular basis whilst developing its proposal.²⁰⁶ Essential Water met with its Customer Panel a total of 4 times throughout this process between November 2024 and June 2025 for 2.5 hours each session, taking an in-depth look at issues and options for the proposal.²⁰⁷ Hall & Partners then prepared an independent report after each session which summarised all the feedback received, which were provided as attachments to Essential Water's Pricing Proposal.

Essential Water ran an expression of interest (EOI) process for the customer panel, during which, customers who themselves or had immediate family members that were employed were filtered out. This process resulted in Essential Water shortlisting 23 applicants to achieve a representative sample of its customer base, which was validated by Hall & Partners (its independent engagement partner). All 23 members were invited to attend the first Customer Panel session, and 16 customers attended. Essential Water notes it is aware that one member of the Customer Panel was previously employed with Essential Water, and that it is a relatively large employer in Broken Hill.

Essential Water engaged effectively

We consider that Essential Water has demonstrated effective engagement. Our review finds that overall, engagement was accessible and targeted. Essential Water provided explanations of 'must-do' and optional investment options to meet outcomes and their individual and overall bill impacts. This has included providing relevant background, explaining the pricing proposal process, IPART's price setting and the benefits and costs associated with topic areas.

We note that Essential Water explicitly described the context of 'must-do' or non-discretionary investments causing increases in bills that customers could not influence over engagement. These were associated with investment decisions that are required to ensure essential serviced can be maintained and regulatory standards are met. It made clear to customers that they were consulting on additional increases in bills.²⁰⁸

Some elements could be improved for the next price review

We recognise that Essential Water made genuine and demonstrable efforts to meaningfully consult with customers. We also consider there are several ways it could build on this foundation for the next price review, including:

- using its survey or other similar engagement methods throughout the entire engagement program rather than only at its commencement to aim to consult more of its customers at multiple points of its engagement program

- exploring customers' views and preferences around any potentially material changes to expenditure and bills through more robust business cases, including 'non-discretionary' expenditure
- implementing a 'closing the loop' session, consisting of Essential Water going back to customers once bill impacts have been settled and testing the final pricing proposal with them before its submission to IPART.

Essential Water's engagement focused on topics directly related to expenditure and was proportional to customer interests, as optional expenditure options discussed were directly linked to customer outcomes determined by customer preferences. These topics were then deliberated, and the outcomes of engagement led to additional expenditure supported by customers. We consider Essential Water's approach was reasonable because it focused on topics that customers could have a high level of influence on and collaborate with Essential Water.

Appendix G >>

Glossary

G

Term	Definition
ABS	Australian Bureau of Statistics.
Assessment tool	Guidance material to assist businesses preparing pricing proposals. It sets out, for each of the 12 principles in the framework, the key considerations IPART is going to make when assigning a grade to a proposal.
Assets-free-of-charge (AFOC)	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.
BHM Ltd.	Broken Hill Mines Ltd, formerly Coolabah Metals (CBH).
Building block model	IPART's standard method for calculating a business's required revenue. Costs are broken down into 5 components to establish the amount of revenue needed to recover them.
Cap-and-collar	Cap on the maximum amount of benefits to be paid out through financial incentive schemes.
Capital Efficiency Sharing Scheme (CESS)	An incentive scheme to provide water businesses with a fixed share of any efficiency gains (or losses) associated with capital expenditure during a determination period.
Carve-out	Mechanism to allow businesses to exclude some uncontrollable costs from the calculation of capital expenditure incentive schemes.
Cost pass-through	Tool to allow businesses to pass some costs directly to customers within the determination period, under limited circumstances.
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.
Community Service Obligation (CSO)	A request for a government business to undertake activities on behalf of the Government that do not align with its commercial objectives.
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).
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.
Demand volatility adjustment mechanism (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.
Early engagement	Opportunity for businesses to engage with IPART 1 to 2 years before submitting their proposals.
Efficiency Benefit Sharing Scheme (EBSS)	An incentive scheme to provide water businesses with a fixed share of any efficiency gains (or losses) associated with operating expenditure during a determination period.
Efficiency factor	Factor applied to a business's forecast expenditure, when appropriate, to adjust it for ongoing productivity improvements.
EPA	Environment Protection Authority, the primary environmental regulator for New South Wales.
ESC	Essential Services Commission, the independent regulator of essential services in Victoria.
Expenditure review	IPART's method for reviewing a business's expenditure to ensure customers are only paying efficient costs.

Financial incentives	Mechanisms to adjust a business's revenue requirement based on its performance, for examples by rewarding the quality of a proposal (ex-ante incentives) or realised improvements in efficiency (ex-post incentives).
GL	Gigalitre (one billion litres).
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 <i>Independent Pricing and Regulatory Tribunal Act 1992</i> , which establishes IPART's regulatory role and functions in New South Wales.
kL	Kilolitre (one thousand litres).
ML	Megalitre (one million litres).
LIS	Line in the sand. The LIS value is equal to the present value of future free cashflow and is used to establish the value of a business's initial Regulatory Asset Base.
ML	Megalitre (one million litres).
Net Present Value (NPV)	The discounted value of a stream of benefits (or costs) taking into account the time value of money.
NPR	Bureau of Meteorology National Performance Report.
Notional Revenue Requirement (NRR)	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.
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 basis to calculate the revenue we provide to businesses in our determinations.
Re-opener	Option to reopen a determination and replace it partially or entirely. This is a last resort solution in case unforeseen cost changes materially impact a business's capacity to carry out its services.
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.
Sharing ratio	The fixed ratio of sharing of gains (or losses) between customers and a water business.
Stakeholder submission	Submission prepared by stakeholders in the sector (such as water businesses, advocacy groups, and other regulators) in response to our Issues Paper.
Target revenue	The revenue Essential Water generates from maximum prices set by IPART.
The Pipeline	The WaterNSW Wentworth to Broken Hill Pipeline.
True-up	Mechanism to allow businesses to pass some unexpected costs to consumers in the following determination period. This is reserved for limited circumstances.
Underspend	Actual expenditure savings in any year of a determination period compared to forecast expenditure. A negative underspend is an overspend.
Water regulation framework	There are 3 pillars of our water regulation framework: Customer, Cost, and Credibility. The 12 principles we use to grade businesses' proposals are grouped under these pillars. Further detail can be found in our Water Regulation Handbook .
WaterNSW Pipeline	WaterNSW's Murray River to Broken Hill pipeline.

Weighted average cost of capital (WACC)	The post-tax real cost of capital as determined by IPART as part of a regulatory review.
WWTP	Wastewater treatment plant.

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