Essential Water 2026-31 Pricing Proposal

Attachment 1: Cost Efficiency Strategy

September 2025

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Executive summary

Essential Energy provides water and wastewater services to the communities of Broken Hill, Menindee, Sunset Strip and Silverton, through its water business - Essential Water.

Essential Water faces several significant challenges in providing its services, which impacts the prudent and efficient cost of providing those services:

- We are a small water business with limited resources operating at a small scale. This means we are unable to achieve the economies of scale accessible to many other water businesses.
- Our challenging physical environment influences the way we work. Our remote and arid location means we must undertake significant works over winter and retain core skill sets in-house. It also makes it challenging to attract and retain skilled labour and introduces additional safety challenges.
- Our aging infrastructure requires investment and renewal to ensure we deliver services to required standards. However, this places pressure on the prices we charge to our customers, many of which are vulnerable or disadvantaged.

We have always strived to be as efficient as possible within the constraints of our operating environment, and to deliver the services that our customers want at lowest cost over the long-term. However, we also recognise there are always opportunities to improve. This Cost Efficiency Strategy (Strategy) is our plan to identify, deliver and monitor cost-efficiency initiatives throughout our business.

This Strategy aims to demonstrate to our customers and stakeholders that we are challenging ourselves to become even more efficient over time; we have a credible plan to achieve the Strategy; and that we will be held accountable for delivering against the Strategy. This Strategy accompanies our 2026-31 Pricing Proposal (Proposal).

1. Introduction

1.1 Background

We face several challenges, which put upward pressure on our efficient costs and prices, including our:

- relatively small size and lack of economies of our scale – our customer base is small and relatively static, with low population density over a relatively large geographic area
- remote location – which can make it difficult to attract and retain labour, and can increase the costs of capital projects (with materials and labour often having to be transported from other locations)
- challenging physical environment – which can mean we have to undertake significant works over winter, outside of the summer period
- our aging assets and network – which require repair, renewal or replacement.

At the same time, our community is already one of the most socio-economically disadvantaged in NSW and faces ongoing risks from cost-of-living increases. This means that most of our customers cannot afford substantial bill increases. It also explains why we have received contributions from the NSW Government to ensure we have sufficient funds to provide adequate service levels while keeping prices at levels that our customers can afford.

Therefore, it is imperative that we provide our services as efficiently as possible and demonstrate this to our customers, community, shareholder and IPART.

Our objectives are to:

- provide safe and reliable drinking water in accordance with the Australian Drinking Water Guidelines (ADWG)
- provide water and wastewater services that meet customers' needs for reliability, quality, environmental protection, and performance
- maintain a water and wastewater system that is safe for the community, customers, and employees
- provide a high level of customer service, and
- minimise costs to Essential Water and the consequential impacts on customer prices.

1.2 Why we have developed this strategy

This Cost Efficiency Strategy (Strategy) is our plan to identify, deliver and monitor cost-efficiency initiatives throughout the business.

We have developed the Strategy to:

- Ensure we provide value for money to our customers and the community by delivering the services they need and want at lowest sustainable cost
- Explain how efficiency measures and targets are reflected in our proposed cost allowances for the 2026 determination period
- Outline our plan to achieve our efficiency targets and supporting measures that will make us accountable for our performance against these targets
- Meet IPART's requirements for us to have a management-approved and externally published cost efficiency strategy (see Box 1 below).

Box 1: IPART's requirements for a cost-efficiency strategy

IPART's Water Regulation Handbook (the Handbook) requires the business to have a management approved and externally published cost efficiency strategy that includes:

- 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.

The Handbook also requires the Chair of the Board of the business to certify that the pricing proposal, amongst other features, would deliver services at the lowest sustainable cost and is consistent with the cost efficiency strategy.

The Handbook also notes that IPART expects a business's cost efficiency strategy to include an annual 'efficiency factor' that represents a realistic, yet challenging, target.

1.3 Intended audience

This explains to our customers, community and stakeholders, including IPART and NSW Treasury:

- how efficiency measures and targets are reflected in our proposed cost allowances for the 2026 determination period
- how our proposed cost allowances reflect the efficient costs to deliver services to required standards to our customers over the 2026 determination period
- how we will be held accountable for our performance against our efficiency targets and proposed cost allowances.

It also serves as an internal tool and roadmap for our business.

2. Cost-efficiency at Essential Water

We employ robust processes to ensure our expenditure is efficient and provides value for money for our customers. This section:

- provides an outline of these efficiency processes
- explains our expenditure over the current determination period relative to IPART's expenditure allowances for this period
- presents how our expenditure compares to other water utilities of a similar size and operating in similar environments.

This information presented in this section supports our view that, given our circumstances (including our size, the density of our customer base, our operating environment and our remote location), Essential Water is broadly at the efficiency frontier. It also sets the context for our cost efficiency target for the 2026 determination period, and helps to explain why this is a challenging, yet realistic, target given our operating environment, size and circumstances.

2.1 Maintaining control over costs

Below we outline examples of the range of measures we employ to achieve cost-efficiency and value for money for our customers.

2.1.1 Sound long-term planning to inform expenditure decisions

Our Integrated Water Cycle Management (IWCM) Strategy ensures that our proposed expenditure is informed by sound long-term planning. The IWCM is a 30-year strategy for the supply of affordable, cost-effective and sustainable water services that meet the community's needs and protect public health and the environment. It has been developed in consultation with our customers, the community and the Department of Climate Change, Energy, the Environment and Water (DCCEEW). The key outcomes of the IWCM Strategy are a 30-year Total Asset Management Plan (TAMP), a 30-year financial plan and a drought and emergency response contingency plan (DERCP).

2.1.2 Risk-based approach to asset management

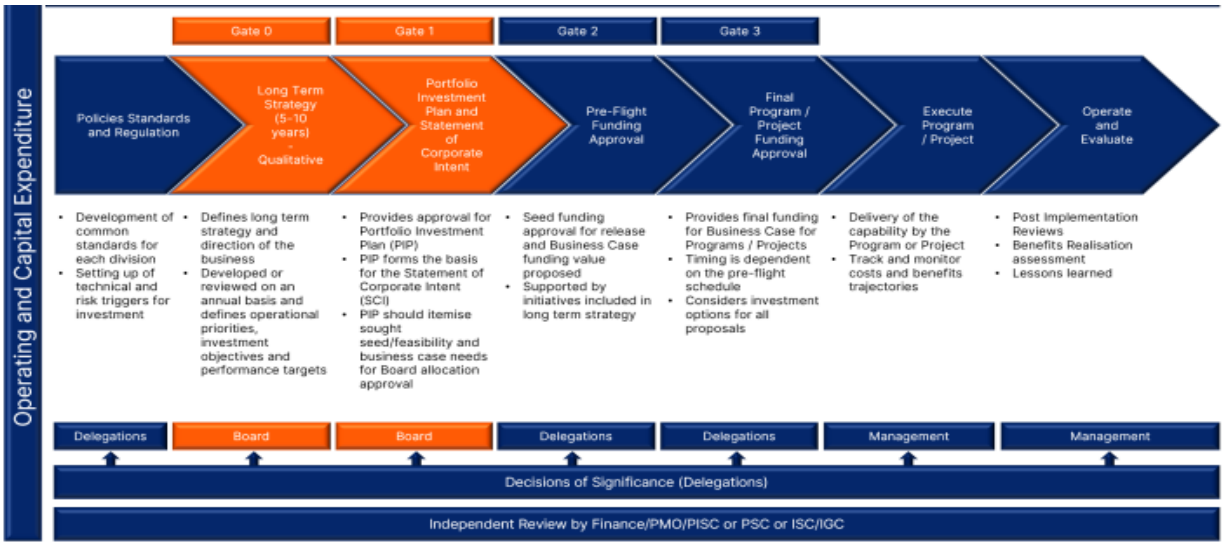
We apply a risk-based approach to asset management to ensure that our capital and operating expenditure is efficient. For example, we record the condition of assets in the field during periodic inspections and subsequently download the data into an integrated asset management system. This enables us to track asset inspection and maintenance work. By relating the data to system performance, we can identify and prioritise problem areas for maintenance and/or capital investment. By analysing data captured in the system, Essential Water can develop more efficient and effective asset management strategies and practices.

We are continuing to strive for improvements to our asset management and planning. We have invested in and implemented an asset management tool (MainPac) and training to ensure our capital expenditure is driven by condition-based assessment. The MainPac asset management system provides a platform for scheduling, tracking and reporting works, including inspections. This enables us to efficiently plan and execute capital expenditure, while minimising the costs and disruptions of reactive activities. This is particularly important as renewal of our aging network becomes more urgent.

2.1.3 Structured and robust approval process to ensure prudent and efficient investment

Following risk assessment, we develop business cases to ensure appropriate justification for all investments. These business cases assess the case for targeting a particular outcome and evaluate the costs and benefits over the long-term of viable options to achieve these outcomes. Essential Energy's Investment Governance Framework shown below is designed to support the making of investment decisions which are:

- streamlined – decision pathway flows are clear and efficient.
- consistent – assessment of needs, outcomes and risks are aligned; and
- relevant – appropriate information, both level and content, is submitted to the necessary forum to enable informed decisions



2.1.4 Sound costing approach

We adopt a p50 approach to budgeting, which means that our proposed expenditure represents the most likely cost outcome, with a 50% chance of our actual costs being either under or over the budgeted amount. This means that we do not include unnecessary contingency costs, although this is sometimes necessary with larger capital expenditure plans.

2.1.5 Robust procurement and contract management processes

We continuously look to improve our supply chain risk management and procurement capabilities to deliver optimal value for money outcomes, whilst ensuring compliance with legislative and regulatory requirements. Our procurement framework ensures expenditures undergo rigorous competitive procurement processes. Our contracts are managed actively, following a comprehensive contract management framework, to manage risk and reduce erosion of value over the contract lifecycle.

Supplier panel arrangements: As an operating division of Essential Energy, Essential Water can use and benefit from a range of pre-qualified supplier panels established for common requirements such as concrete civil works, environmental consultancy services, trenching and under boring, and traffic management services, which help to improve supply chain resilience and deliver lower costs through competitive tension amongst panel members.

Utilisation of NSW Government Contracts and Schemes: As a State-Owned Corporation we can utilise NSW Government contracts and schemes for the procurement of certain requirements (for example ICT Services, Professional Services, Contingent Labour, Legal Services) which provide benefits relating to cost effectiveness, compliance, efficiency, and risk management. Leveraging the collective purchasing power of the NSW Government we can deliver cost savings and value for money, using pre-negotiated competitive rates where available via a pre-approved supplier base to ensure Suppliers meet minimum standards in areas like insurance, financial stability, WHS, and environmental practices.

Spend aggregation and consolidated market engagements: Essential Water benefits from procurement activities which aggregate spend across the entire Essential Energy organisation for common spend areas such as Electricity supply, Grounds Maintenance and Cleaning Services to achieve best value for money outcomes.

Project delivery capability: Most of our large capital works projects are delivered via a dedicated in-house Major Projects capability within Essential Energy which provides professional project management for Essential Water requirements. Utilising best practice procurement approaches including Early Contractor Involvement and Early Tenderer Involvement and innovative commercial models such as Incentivised Target Cost contracts to deliver project efficiencies and optimise value for money in the design, construction and operation phases. For the Wills St wastewater treatment plant (WWTP), the close involvement of both DCCEEW and the Environmental Protection Agency (EPA) in the design phase has meant that the end-result will be more efficient and appropriate for our community for the future.

2.1.6 Other

Corporate Overheads: As an operating division of Essential Energy, Essential Water utilises expertise in a variety of corporate areas such as Marketing, Communications, Safety, Legal, Digital Services, Property, Procurement and Finance. Essential Water and Essential Energy set out clear expectations, service standards and accountability for services provided from each Corporate area. Essential Water's management team frequently monitors performance and ensures resource allocations from each corporate area are appropriate to meet Essential Water's requirements.

2.2 Engaging with our shareholder

Essential Energy is subject to a range of NSW Government policies that seek to optimise business performance and deliver efficiencies to ensure it maximises profitability and sustainable returns to government without compromising service quality, safety or cost of living. We regularly report to our shareholder, NSW Treasury, in relation to:

- Operational and financial performance, including shareholder returns and operating and capital expenditure, including the key drivers for financial forecasts.

- Our capital structure, to ensure it is aligned with the strongest performers among our industry peers. We work with Treasury to identify adjustments needed to our capital structure that more efficiently allocates the Government's capital.
- External efficiency reviews, where we must engage an appropriately qualified expert to undertake an efficiency review at least every five years or as otherwise agreed with Treasury. Once the results of the external review are available, we determine the actions needed improve efficiency and analyse the financial and operational impacts while ensuring that this will not adversely impact our quality of service to customers.

As well as being a driver for our ongoing efficiency, these policies and Shareholder expectations also aim to enhance the transparency and accountability for our financial performance.

2.3 Our recent performance and achievements

2.3.1 2022-26 operating expenditure (excluding bulk water costs) compared to IPART's allowances

Our actual operating expenditure excluding bulk water charges for the 2022 determination period is compared to IPART's allowances in Table 1.

Table 1: Essential Water's actual opex (excluding bulk water charges) compared to IPART's allowances, current period ($2025-26, $'000)

	2022-23	2023-24	2024-25	2025-26*	Total
IPART allowances					
Water	11,870	11,040	10,819	9,979	43,708
Wastewater	2,443	2,419	2,465	2,212	9,539
Corporate overheads	2,726	2,492	2,373	2,121	9,712
Total	17,039	15,951	15,658	14,311	62,959
Essential Water actuals					
Water	10,912	11,284	12,195	12,330	46,721
Wastewater	3,313	3,229	3,469	3,476	13,487
Corporate overheads	4,450	4,321	4,300	4,340	17,411
Total	18,675	18,834	19,964	20,145	77,619

*2025-26 'actuals' are forecasts at the time of submission

Our water and wastewater operating expenditure including corporate overheads have been higher than IPART's allowances. The main drivers of these variances are:

- We have continued to incur higher labour costs relative to IPART's allowances. While the number of FTEs is slightly lower than we anticipated when preparing our 2022 determination period forecasts, it remains higher than the levels assumed in IPART's allowances, particularly in 2024-25 and 2025-26. Essential Water continues to face operating constraints associated with an aging workforce in a remote location. These constraints would also be faced by any efficient business providing services in Broken Hill. In addition, IPART's allowance was based on a reduced number of FTEs that IPART's expenditure consultant (AECOM) considered could be achieved following the decommissioning of the Menindee Pipeline and completion of the Will Street wastewater treatment plant. The efficient deferral of these two projects has limited our ability to reduce our number of FTEs. AECOM also considered that sharing resources between Essential Water and Essential Energy could help address barriers in attracting and retaining skilled staff in the region. However, we maintain that there is limited overlap between the specialist electrical work required by Essential Energy and the specialist water and sewerage work required by Essential Water (such as water treatment officers and sewer operators). In practice, any overlap is limited to a small number of activities that are general in nature, but we are not experiencing staff shortages in those areas – skills and expertise is needed in the water technical and specialist roles. The energy transition has also substantially increased the workload for Essential Energy, further limiting the potential to share resources.

- Corporate overheads have been allocated to Essential Water using Essential Energy's Cost Allocation Methodology (CAM) that has been approved by the Australian Energy Regulator (AER). In the 2022 determination period, IPART set allowances with reference to forecasts for corporate overheads provided by Essential Water that did not include the full amount determined by our CAM. We have continued incurring the level of overheads allocated using the CAM. We make the case in section 2.4 that our corporate overheads are efficient for a business in our circumstances, with regard to similar sized and located water businesses.

2.3.2 2022-26 capital expenditure compared to IPART's allowances

We expect total capital expenditure over the 2022 determination period to be approximately $61 million ($2025-26), which is about $27.8 million or 31% less than IPART's allowances for this period (see Table 2). In terms of the phasing of expenditure over the 2022 determination period, our capital expenditure was significantly lower than IPART's allowances for the first three years of the determination period and then above IPART's allowances for the final year of the determination period.

Table 2: Essential Water's capital expenditure relative to its IPART allowances ($'000, 2025-26)

	2022-23	2023-24	2024-25	2025-26	Total
IPART allowance	33,196	29,358	18,801	7,694	89,049
Actual	8,393	4,560	14,533	33,588	61,074
Difference (%)	-75%	-84%	-23%	337%	-31%

The main differences between our actual capital expenditure program over the 2022 determination period and our capital expenditure program planned at the time of IPART's 2022 determination and reflected in our allowances, are:

- **Wills Street Wastewater Treatment Plant replacement**: IPART's 2022 Determination allowed $30 million for the replacement of the Wills Street WWTP over the four-year 2022 determination period. The design, an efficient and fit-for-purpose structure, is in its final stages of completion and will be out to tender in late 2025. Therefore, we expect on-the-ground work to commence in early calendar year 2026 and to be completed in mid-2028.
- **Graziers pipeline**: Funding was provided to build a new pipeline for graziers receiving supply from the (to be decommissioned) Menindee pipeline. Findings from the Heritage studies placed this program on hold and there was no grant forthcoming from federal government to support the project. The current supply from the existing Menindee pipeline is now gravity fed and recent investigations have shown that the pipeline (without pumping pressure) should function appropriately for several more years, at which time this project could be re-assessed. We therefore efficiently deferred this expenditure. As discussed in Chapter 3 of the Proposal, our customer panel was comfortable if this project was reviewed as part of the 2031 Pricing Proposal.
- **Water supply optimisation study**: We are currently awaiting an optimisation report regarding our water reticulation system and storages (including Stephen's Creek). The report will provide critical guidance on optimal storage levels and the role of back-up supply options, amongst other considerations. Given that the outcome of the report has the potential to provide significant savings, depending on the solutions advised, we have deferred some of our planned expenditure on the following infrastructure programs to prevent any duplication and unnecessary expenditure, and to provide for better logistical coordination of contractors given the distances they need to travel and costs incurred:
    - Stephens Creek reservoir dam wall rehabilitation
    - Mica Street service reservoir replacement
    - Rocky Hill service reservoir refurbishment and replacement.

  We will be undertaking a new combined business case for these reservoirs, following our assessment of the optimisation report.

- **Mica Street water treatment plant concrete remediation**: Whilst the planning and preliminary work has now been completed, there is a limited window to undertake this work being a 3-month period during winter. The completion of this project has been delayed until winter 2026 so that it can occur at the same time as works on the reservoirs, to minimise interruptions to our customers.
- **Broken Hill water and sewer reticulation repair and replacement**: The planned work for this period is on track for delivery and relatively close to budget over the four years. Consolidation of work has meant fewer visits by contractors, saving travel costs. The use of an innovative technology (expandable fibreglass sock) meant that customer interruptions were minimised whilst this work was undertaken.
- **Block 10 communications tower**: The existing tower, located at Mica Street, enables our SCADA systems to communicate between remote sites, which is crucial for both water and wastewater operations. A new tower is proposed at Block 10 to replace the existing ageing tower which is prone to lightning strikes due to its position atop an existing concrete building. It cannot be effectively earthed to prevent the impact of lightning strikes and also lacks sufficient safety systems. Planned expenditure, whilst not specified in our 2022 determination, is anticipated to be completed in 2026 and will cover the build of the new tower and the decommissioning of the old tower.
- **Menindee water treatment plant works**: There are follow on works required at Menindee during 2025-26, which were not included in our 2022 determination. These works are needed to better integrate the new water treatment plant. In the construction of the new treatment plant some old assets were retained and some temporary assets installed. This infrastructure and assets now need to be replaced or upgraded to provide a permanent and optimal solution to further enhance the operation of the treatment plant, including:
    - A new, larger, clear water storage tank is needed to ensure supply to customers, when the plant is offline;
    - The sludge dams, retained from the old water treatment plant, require upgrading to accommodate the higher volumes of sludge produced by the new treatment plant due to the improved process;
    - Existing raw water pump was installed as a temporary solution to supply the new water treatment plant and requires replacement, and
    - Clear water pumps are at the end of their asset life and require replacement.
- **Non-system expenditure** (IT, motor vehicles, buildings, property maintenance, fittings, furniture, plant and equipment, tools): The actuals costs are not significantly different to the IPART allowance for this category apart from some abnormal expenditures on digital services upgrades/renewals for our SCADA, asset management and GIS systems.
- **Corporate overheads**: these have been applied directly using the AER approved Cost Allocation Methodology. As recommended by IPART in our 2022 determination, we have undertaken work to ensure the accuracy of overheads allocated to Essential Water. The review ensures that Essential Water incurs costs directly attributable to its operations and that corporate costs are appropriately allocated to the water business. The fluctuation in the overheads during the 2022 determination period is a function of the expenditures being undertaken by the water business e.g. the increase in capital expenditure results in an increase in overheads as support levels required increase. We make the case in section 2.4 that our corporate overheads are efficient for a business in our circumstances, with regard to similar sized and located water businesses.

Table 3: Essential Water's capital expenditure relative to its IPART allowances ($'000, 2025-26)

	2022-23	2023-24	2024-25	2025-26	Total
Total					
IPART allowance	33,196	29,358	18,801	7,694	89,049
Actual	8,393	4,560	14,533	33,588	61,074
Difference (%)	-75%	-84%	-23%	337%	-31%
Water					
IPART allowance	11,977	7,407	4,543	4,199	28,126
Actual	1,706	1,837	2,134	11,737	17,415
Difference	-86%	-75%	-53%	180%	-38%
Wastewater					
IPART allowance	14,685	16,194	10,787	1,629	43,295
Actual	2,827	364	5,393	8,369	16,954
Difference (%)	-81%	-98%	-50%	414%	-61%
Non-system					
IPART allowance	2,225	1,683	963	959	5,830
Actual	2,380	1,326	1,559	4,177	9,442
Difference (%)	7%	-21%	62%	335%	62%
Corporate overheads					
IPART allowance	4,309	4,074	2,508	907	11,798
Actual	1,479	1,033	5,446	9,305	17,264
Difference (%)	-66%	-75%	117%	926%	46%

2.3.3 Achievements and current initiatives

During the current determination period, specific cost savings initiatives that Essential Water has implemented include:

- **Optimising Contractor Expenses** – Essential Water negotiated with the contractor engaged with sewer lining works (complete in Sep-24) to undertake additional work for the same contract value. This saved Essential Water future costs and brought forward the completion of future planned works. In addition, the use of an innovative method of lining (expandable fibreglass sock) meant that customer interruptions were minimised whilst this work was undertaken.
- The **sale of Imperial Lake** to Landcare Broken Hill reduces the operating expenses and liabilities associated with managing the lake.
- **Ongoing preventative works at Menindee** including tank repairs and pump replacements has resulted in improving efficient operations and reduced the number of labour hours require to perform maintenance and repairs at Menindee.
- **Optimising the utilisation of water from Stephens Creek Reservoir** when dam water levels are high to reduce usage costs from the WaterNSW (Wentworth) pipeline
- **Pumping at peak times** (morning and evening) is avoided (except during emergencies) to reduce the amount of electricity usage and subsequent costs
- **Reducing water levels** to reduce water pressures to prevent bursts of end-of life pipes (and unplanned interruptions and extra costs), as a preventative measure complemented by expenditure plans to increase pipe renewals.
- **Meter to Cash** (M2C) – Essential Energy is currently implementing a new technology solution to manage the macro metering and payment process, including for Essential Water. Essential Water's financial contribution to this project is reflected in Corporate Overheads. The new fit for purpose technology solution, which will replace the existing Peace billing system, will manage; Meter data; meter assets; market

gateway; customer information and network/customer billing. This will improve our capabilities in the M2C processes to deliver better service for our customers and streamline and improve internal work processes, capabilities and digital security, including:

- Reduced effort to apply annual updates to tariff configurations, through automation and simplification of the configuration process within the new system.
- The new M2C solution will automate handling of potential meter exchange transactions, reducing the need for manual handling and potential errors.
- Modern M2C systems and efficient work procedures will improve customers' and stakeholders' experience in the dealings with Essential Energy (and Essential Water), including through a single consistent datastore of customer information and efficient enquiry and issue management.
- Modern M2C systems and efficient work procedures will aid attraction and retention of high calibre staff in a competitive labour environment.

2.4 Our expenditure compared to other water utilities

The NSW DCCEEW publishes performance data on NSW local water utilities, including water and sewerage operating costs per property. It can be difficult to benchmark and compare water utilities because of different locations, physical environments, customer numbers/densities and service levels – which are amongst a range of factors that can impact on the efficient costs of service provision. Nevertheless, our expenditure in 2024-25 is low compared to other major water utilities.

Figure 1 and Figure 2 show that our water and wastewater expenditure is in line with local water utilities of comparable size (measured by the number of water connections), and local water utilities operating in the western region of NSW and facing comparable remote and challenging operating environments to Essential Water.

Figure 1: 2024-25 water and wastewater operating expenditure per property for NSW LWUs 5,000-15,000 water connections ($nominal)

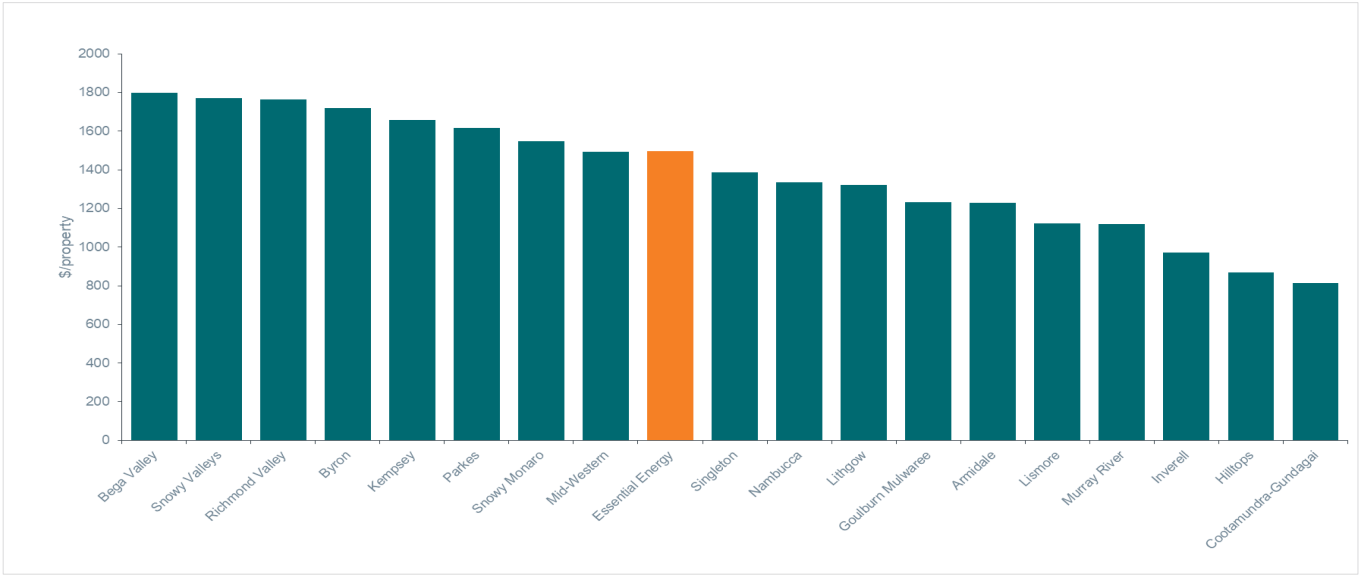
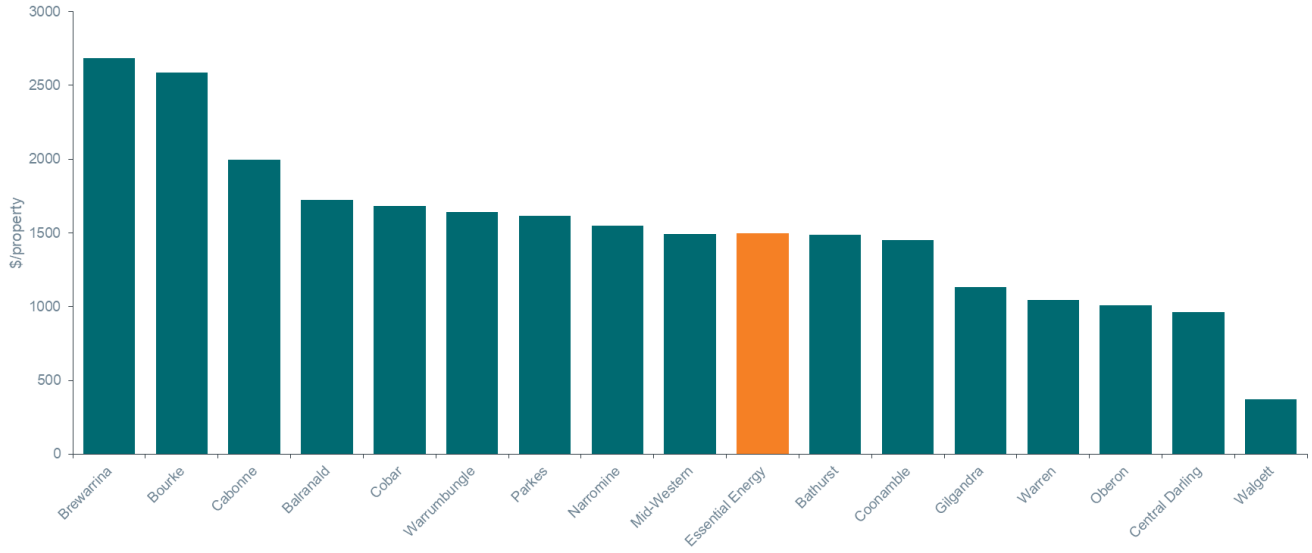


Figure 2: 2024-25 water and wastewater operating expenditure per property for Western NSW LWUs ($nominal)



In 2024-25, our corporate overheads are relatively low compared to other water utilities across NSW, despite higher levels of expenditure compared to IPART's allowances. Our corporate overheads per property are the 5th lowest for water utilities with 10,000-30,000 water and wastewater connections and 6th lowest for water utilities in the western region of NSW – see Figure 3 and Figure 4.

Figure 3: 2024-25 water and wastewater overheads per property for NSW LWUs 10,000-30,000 water and sewer connections ($nominal)

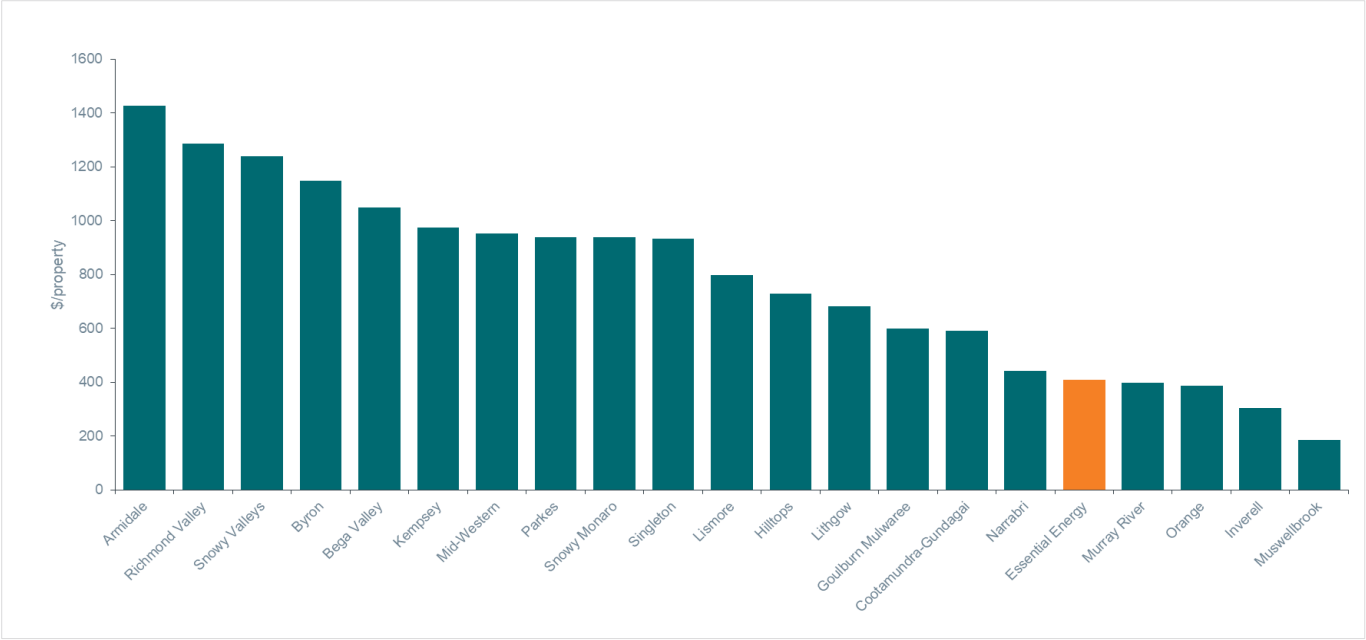
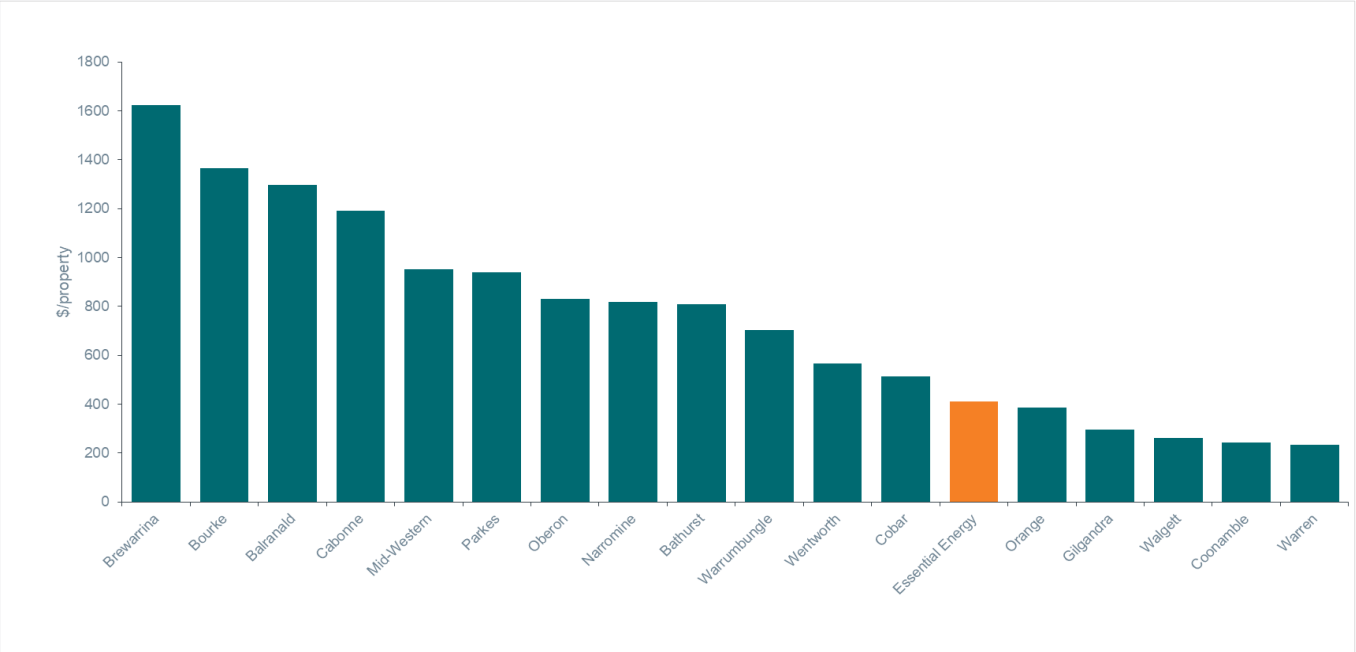


Figure 4: 2024-25 water and wastewater overheads per property for Western NSW LWUs ($nominal)



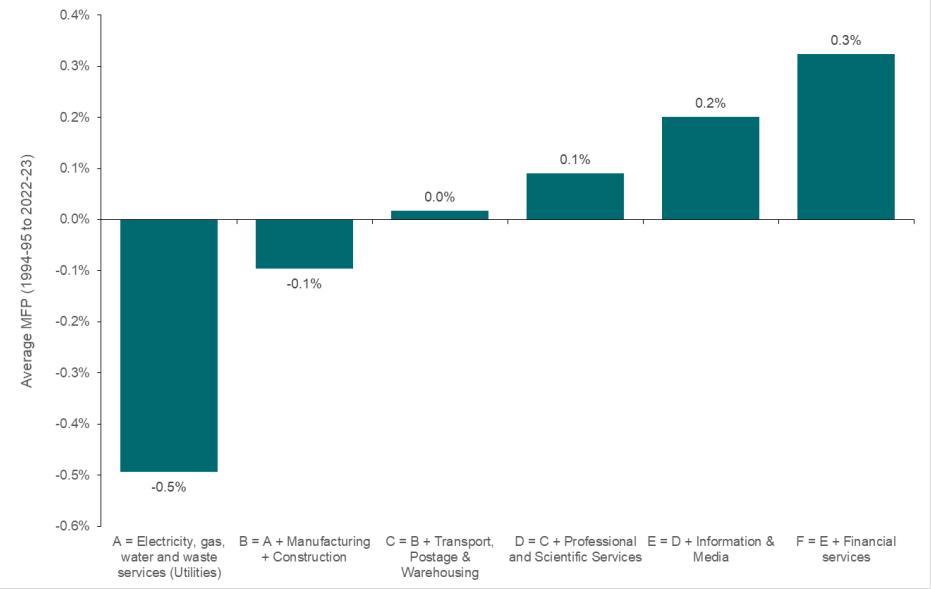
3. Our efficiency target for 2026-27 to 2030-31

We have set a cost efficiency target of 0.5% per annum of our forecast controllable operating expenditure and capital expenditure over the 2026-27 to 2030-31 pricing period. We consider that this is a realistic yet ambitious productivity target for the following reasons:

- It is the AER's default ongoing efficiency factor that it applies to efficient base level operating expenditure, and the ongoing efficiency factor applied to Essential Energy's expenditure allowances in its most recent AER determination. The AER set its target of 0.5% per annum based on a comprehensive review that considered a range of information sources, including sectors comparable to electricity distribution.[1] Given Essential Energy's water and electricity services both involve serving customers using long-lived and relatively stable assets, we consider there is no strong rationale for setting different efficiency targets across our business.
- It may be less than efficiency targets applied to other water utilities by IPART. However, higher efficiency targets for other utilities are typically applied when historic expenditure is not efficient. This means that these higher efficiency targets include 'catch up' as well as ongoing efficiency. As outlined above, Essential Water's expenditure in line with other local water utilities delivering services in similar circumstances and so our efficiency target reflects ongoing efficiency only.
- It is slightly less than the long-term average annual change in multi-factor productivity (MFP) in the market sector of the economy (0.7%), which IPART has previously applied in its price determinations. However, the market sector includes a broad range of industries, several of which have little relevance to Essential Water's capital-intensive operations. For example, agriculture (3.6%) and financial services (1.7%) have driven up the average in the market sector. When a selection of more relevant comparator sectors is considered, our target of 0.5% per annum would be at the upper end of historical productivity performance. Figure 5 shows that the electricity, gas, water and waste sector had average MFP growth of -1.2% since 1994-95. As additional industries are added the average MFP increases, however these become less and less relevant to Essential Water.

A higher ongoing efficiency factor or target than 0.5%, would mean that operating and capital expenditure allowances decline to levels that may compromise the delivery of essential services at appropriate standards - which is not in our customers' long-term interests.

Figure 5: Average long-term MFP growth of selected sectors in the economy (% p.a.)



[1] AER, Final decision paper, Forecasting productivity growth for electricity distributors, March 2019, p 10. https://www.aer.gov.au/system/files/Opex%20productivity%20growth%20review%202018%20-%20Final%20decision%20-%208%20March%202019.pdf

4. Our plan to meet the target

4.1 Our efficiency framework

Our efficiency framework is outlined below. It involves identifying, delivering, evaluating and communicating efficient initiatives. These measures are in addition to our best practice management processes outlined earlier in this document.

4.1.1 Identify

We will build on our current processes to identify opportunities for cost efficiencies across the business. These include:

- The Essential Water management team that is responsible for consistent practices and processes for ongoing identification, measurement, and reporting of efficiency initiatives
- Subject matter experts and cross-functional teams exploring efficiency opportunities in their respective areas of expertise, such as data and appropriate use of artificial intelligence (AI)
- Periodic reviews of our business processes, systems, and frameworks to ensure leading cost efficiency practices are being implemented
- Provisions to identify cost efficiencies in performance reviews, investment plans, and project development frameworks
- Encouraging individuals and teams to be innovative with solutions and provide a simplified process for these to be considered for implementation.

4.1.2 Deliver

We have a delivery approach that:

- Establishes clear roles, responsibilities and delegations of authority
- Includes management plans and timeframes for delivery of cost efficient initiatives agreed to by key stakeholders
- Establishes protocols for reasonably estimating cost savings and benefits
- Provides support to those responsible for delivering efficiency incentives (i.e., tools to measure the performance of the initiative and financial analysis support)
- Ensures implementation stays on track through regular monitoring and support to remove any roadblocks.

4.1.3 Evaluate

We will regularly review our performance in delivering efficiency initiatives, with the aims of:

- Ensuring savings or benefits of the efficiency initiatives are being realised and included in the activities of the business
- Reviewing and reporting on progress against our efficiency target, including through regular management reporting
- Ensuring that learnings from the initiatives are identified and shared across the business to inform future initiatives.

4.1.4 Communicate

We will regularly communicate our learnings and progress with cost saving initiatives within the organisation to encourage future initiatives, build corporate knowledge, and continuously improve for the benefit of our customers, shareholder, the community and other stakeholders.

4.2 Initial efficiency initiatives

We have identified an initial set of cost efficiency initiatives to pursue over the 2026-27 to 2030-31 pricing period. This is to:

- inform the suitability and achievability of our efficiency target
- provide initial focus areas for the business
- demonstrate our commitment to the strategy.

Our initial set of cost efficiency initiatives include the following:

- Water and Sewer pipeline relining projects will be strategically timed to ensure value for money from contractor expenditure as well as operational savings (including emergency response costs through lower instances of blockages and bursts)
- Transition to full remote operation of Menindee Water Treatment Plant, utilising existing staff at Broken Hill to effectively manage and operate both plants, thereby reducing labour hours and fleet costs associated with travelling to and operating Menindee
- Introduction of Smart Meters on the network, enabling better leak detection for customers (saving water) and Essential Water. Real-time access to data will enable water efficient behaviour
- Update of fleet vehicles from petrol/diesel to electric when vehicles are due for renewal, thereby reducing fuel costs as well as carbon emissions
- Installation of solar panels as part of the new Wills Street WWTP to reduce electricity costs.

5. Accountability for this strategy

We are establishing internal and external processes to ensure we remain accountable for delivering on efficiency commitments in this Strategy.

5.1 External accountability

To remain accountable to our customers, community and other stakeholders to delivering against this Strategy we will:

- publish this Strategy on our website
- report progress periodically to our Essential Water Customer Panel.

5.2 Internal accountability

Internally, managers will be assigned responsibility for delivering elements of this Strategy, with the Executive Leadership Team and Chief Executive Officer ultimately responsible.

We will regularly report to our Executives on progress against this Strategy, and the IPART expenditure allowances which will include determined cost efficiency measures.