

19 June 2025

Mr Andrew Nicholls
Chief Executive Officer
The Independent Pricing and Regulatory Tribunal

Dear Mr Nicolls

Confidentiality Check of AtkinsRéalis Expenditure Review Report for Rural Valleys

With regard to your 17 June 2025 letter requesting that we check the AtkinsRéalis report titled *WaterNSW – Rural Valleys expenditure review – 2 May 2025* (“final report”) for any information that is considered to be confidential or commercial in confidence, WaterNSW has reviewed the report and provides the following response. The final report was made available to WaterNSW for the first time in your letter on the 17 June 2025.

WaterNSW has not identified any information that meets the confidentiality or commercial in confidence tests outlined in your letter. However we have identified one matter that remains factually incorrect. This matter relates to expenditure associated with Lake Cargelligo and is outlined in Attachment 1.

WaterNSW remains very concerned about the significant reductions proposed by the Report

In our 19 March 2025 response to the AtkinsRéalis draft report (“draft report”), we communicated that the proposed reductions would have a significant impact on WaterNSW’s ability to meet current obligations without consideration of the many additional obligations that have been placed on WaterNSW during the current period.

We remain concerned that the report does not sufficiently address the risks associated with substantial reductions to investment programs and the impact this may have on the health of our assets and customer service levels, together with our ability to meet regulatory and financeability considerations. This could result in significant reductions to our workforce at a time when our legislative and regulatory obligations have increased.

We are disappointed to see the consultant’s final report that we received three months after our response to the draft report contains no (or very few) changes and no meaningful additional evidence or analysis to assist WaterNSW, stakeholders or customers in the review process. The only material amendment is an attachment where the consultant summarily dismisses our concerns at a high level that is devoid of any analysis or detail. Given that the lower bound findings, if adopted by IPART, would reduce our proposed capital and operating expenditure by \$463 million (47%) over five years, we expected greater attention to addressing our concerns. We have provided additional information on these concerns in Attachment 1.

Our original proposal reflected long term sustainable costs

WaterNSW maintains that the operating and capital expenditures contained in our 30 September 2024 pricing proposal are our long-term efficient costs. We wish to highlight that even the consultant's **upper bound is a significant reduction** to our proposed combined capital and operating expenditure (14% or a \$140 million over five years), which would have significant implications on our ability to meet our regulatory obligations while remaining financially viable.

For comparison, the upper bound reduction for operating expenditure of 8% in the final report is greater than the Sydney Water reduction of 6% as outlined in the IPART's draft determination for Sydney Water, highlighting that the consultant's proposed upper bound is itself a significant reduction.

Adopting the lower bound would lead to the risks identified above for customers, the business and our shareholder. We expect that when IPART develops a traditional building block determination, it will not simply take the mid-point of two unreasonably low bounds when setting operating and capital expenditure allowances, but instead make considered judgements as to the resultant risks borne by the organisation and by customers and what adjustments need to be made to manage those risks.

Concerns with the process

WaterNSW was provided with the consultant's final report on 17 June 2025, three months after we provided an extensive response to the draft report and more than a month after the Information Paper was issued on 14 May 2025. Other than a 48-hour window to review the final report for information that is confidential or commercial in confidence, we have not had an opportunity to review and respond to the final report in detail prior to the release of IPART's decision on new rural bulk water pricing from 1 July 2025.

WaterNSW has devoted significant time, effort and resources to the expenditure review process. We dedicated our senior staff to review and respond to the draft report in good faith and provided a detailed response within the allotted two week time to address errors and inconsistencies so that the report could be relied upon by IPART for its draft decision.

Given the date of the consultant's final report (2 May 2025) and the release of the Information Paper on 14 May, it is apparent that the final report could not have been considered in the materials published by IPART. In the Information Paper (page 7), IPART states "The Tribunal has taken a range of factors into account in reaching this opinion and has not relied solely on the consultant's review". Given the timing of the final report, we question whether any weighting was or should have been given to the consultant's findings in the Information Paper.

We see no value in publishing the consultant's final report at this time without an accompanying draft determination stating how IPART has applied its judgment and selected expenditures within (or outside of) the consultant's upper and lower bounds. To do so would create greater uncertainty on how future prices will be set.

If you have any further questions, please contact me directly at [REDACTED]

Yours sincerely,

[REDACTED]

Chief Executive Officer

Attachments

1. WaterNSW information that is considered confidential or commercial in confidence
2. Examples where the consultant has not substantively addressed our concerns

Attachment 1 – WaterNSW Information that is considered confidential or commercial in confidence

While perhaps more of an “error” than a matter of confidentiality or commercial in confidence, AtkinsRéalis states on page 109 of the final report in relation to Lake Cargelligo that:

We note that these works are complete as there is no expenditure proposed for this project in the 2025 determination period.

This statement may have reputational impacts for WaterNSW (and the consultant) as WaterNSW did not at any point state that the works were complete (nor were we asked if this was the case). Works were planned to be completed and aligned with the forecast at the time of our pricing proposal; however, the project was paused due to delivery performance.

The project will now roll over into the next determination period and WaterNSW will have to manage asset risk with the allowance accordingly.

WaterNSW requests that this statement is removed or redacted as it is factually incorrect.

Attachment 2 - Examples where the consultant has not substantively addressed our concerns

To highlight the largely dismissive approach taken by AtkinsRéalis, this attachment provides a non-exhaustive list of examples that have not been substantively addressed in the final report.

One of the matters from the draft report we responded to was to address our concern that “valley level findings were not provided with the draft report as opposed to the practice in prior reviews”, given that valley based pricing is a prerequisite to calculate customer prices.

The consultant provided the following response (page 172) that has no mention of valley based pricing:

We have not seen these attempts to reproduce our numbers so cannot comment on these difficulties. However, we have considered the feedback and acknowledge that the lower range for renewals has been based on the 2021 allowance which included efficiencies, and that using these as the basis of pre-efficiency allowances would result in double counting. We have made an amendment to our report to correct this for the lower range. The upper range remains unchanged as it was based on recent actuals.

The consultant further commented on page 165 that:

It is not clear how there can be a contradiction at Valley level in the report given that it sets out Determination not Valley level figures.

It is clear from the above that no information has been provided by the consultants to enable WaterNSW or IPART to calculate valley based prices in accordance with the standard practice. This approach only works if IPART applies a “postage stamp” increase across all valleys as IPART has done in the Information Paper.

Another example is early engagement, where WaterNSW response to the draft report stated, “Early engagement review (by FTI consulting) did not appear to be incorporated”, to which the consultant responded by stating:

We can confirm that we have read and taken into consideration the early engagement review undertaken by FTI.

We do not consider the findings of the expenditure review to be inconsistent with those of the early engagement review. The FTI review focused on systems and processes whereas our review focused on the pricing proposal and supporting documents.

We note that the letter does not give specific examples of inconsistencies. Many of the ‘cross-cutting’ comments in the Rural Valleys report are based directly on what was said by WaterNSW staff at interview and in some cases the information used as the justification for the business’s proposed opex step changes (e.g. the data gaps justifying the crane safety opex step change).

The total proposed reductions of close to \$0.5 billion over five years in the lower bound is a clear inconsistency between the FTI and AtkinsRéalis reports’ findings that should not have needed specific citing.

We also note that, on page 173, the consultant stated, “We have not commented on user shares” when the scope of works specifically requires that the consultant must undertake “A targeted review of WaterNSW user shares”, suggesting the terms of reference may not have been met.

These examples are not exhaustive and suggest that only cursory attention has been provided to responding to our comments provided in March.