

19 March 2025

Mr Andrew Nicholls

Chief Executive Officer

The Independent Pricing and Regulatory Tribunal

Dear Mr Nicolls

Response to the AtkinsRéalis and Aither Draft Expenditure Reports for Rural Valleys and Greater Sydney

WaterNSW welcomes the opportunity to comment on the IPART expenditure review consultants' (AtkinsRéalis and Aither) draft findings on WaterNSW's proposed capital and operating expenditures for our bulk water services from 1 July 2025 to 30 June 2030.

In responding, we want to express our serious concerns about the quality of these reports, and the consequences for WaterNSW and its continued viability, should the reports' recommendations be adopted by the Tribunal.

We believe the draft reports contain a number of critical errors, and in many cases have demonstrated overreach by dismissing the Policy or Regulatory intent of the NSW Government, and therefore preventing the Tribunal from forming a view on critical investments, by excluding them from recommendations altogether.

We also consider the reports do not sufficiently address the risks associated with substantial reductions to core operations and investment programs, and the impact this may have on the condition of our ageing assets, customer service levels, together with our ability to meet regulatory and financeability obligations. WaterNSW's detailed comments are outlined in our response **Attached** to this letter.

We suspect the poor quality and persistent inconsistency within and between the consultants' reports reflect an insufficient amount of time and their inability to understand the complexity of our business and the complexity that arises from managing 15 regulatory segments. Given the significance of the implications of the recommendations for WaterNSW, our customers and shareholders; we ask that IPART give deep and serious consideration to the impacts of the proposed reductions, which we deem to be untenable.

If these reductions are accepted, they will likely threaten the organisation's ongoing sustainability, including our ability to meet safety, risk and regulatory obligations, result in significant reductions to our workforce, and will eliminate our ability to provide any return to our shareholder. While WaterNSW is focussed on improving our efficiency and productivity, without a sustainable level of investment for the water sector, WaterNSW will be unable to maintain service levels, which have already been constrained (via a self-imposed \$133 million

efficiency program) with customer affordability in mind. It will also severely limit WaterNSW's ability to meet the many additional obligations that have recently been placed on the organisation, for commencement during the next regulatory period.

We acknowledge that WaterNSW's circumstances are unique when compared to other water utilities, due to our different services, footprint and customer profile. This causes inherent misalignment with IPART's pricing model and gives rise to conflicts over customer affordability and service delivery.

Given this misalignment, and in view of our serious concerns, we suggest that the Tribunal, WaterNSW and our Shareholders would benefit from more time to resolve the structural issues that have been revealed in this pricing process. The Tribunal may wish to consider delaying its determination by a period of one year, with a modest CPI+ uplift in revenue, to facilitate a strategic discussion with Government on how to achieve a sustainable outcome for all stakeholders.

Such a discussion could also consider whether WaterNSW, as currently constituted and regulated, is the most effective model to deliver the NSW Government's objectives, or whether other institutional arrangements, with different regulatory pricing schemes, may be more appropriate.

We believe it is better to take the time to get this right, than make a determination based on inadequate advice that may lead to serious risks and irreparable consequences for WaterNSW, our customers and the communities we serve. In the interim, we suggest that the reports should not be made public until several areas of concern are addressed as summarised above and detailed in Attachment 1.

The Board of WaterNSW has reviewed these matters and both the Chair and I look forward to meeting with you to discuss at your earliest convenience.

If you have any further questions in the meantime, please contact me directly at

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Yours sincerely,

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Andrew George
Chief Executive Officer

Attachments

1. WaterNSW detailed comments in response to the AtkinsRéalis and Aither draft expenditure review reports