

16 December 2025

Ms Carmel Donnelly PSM
IPART Chair

Actions arising from 3 December meeting with the Tribunal and WaterNSW Board re the 2026 Rural Valleys Determination

Dear Carmel,

I refer to the 3 December 2025 meeting with the Tribunal and the WaterNSW Board regarding IPART's investigation into prices for WaterNSW regional and rural bulk water services from 1 July 2026.

The Board and I express our appreciation for the openness of the Tribunal to engage in meaningful dialogue on how WaterNSW can best contribute to IPART's 2026 review and your commitment to consider the deeply held concerns of the WaterNSW Board as communicated at the meeting.

On behalf of the Board, I wish to follow up on two matters: WaterNSW's serious concerns with the unsatisfactory analysis conducted by AtkinsRéalis (Atkins) and the Tribunal's approach to the weighted average cost of capital (WACC).

Serious concerns with the Atkins' analysis

It is the Board's contention that the Atkins' review of WaterNSW's operating and capital expenditures was deeply flawed and drew erroneous conclusions based on errors of fact or inconsistencies in analyses. This has made IPART's task considerably more challenging and, we would hold, makes providing any material weighting to the Atkins' findings untenable.

Our concerns on the adequacy of the Atkins' approach and findings have previously been provided to IPART in responses to: (1) the Atkins draft report on 19 March 2025, and (2) WaterNSW's 19 June 2025 letter regarding confidentiality in the draft report.

In summary, we have previously communicated to IPART that, as expressed in our comprehensive 19 March 2025 response to the Atkins' and Aither draft reports (noting our focus on Atkins here):

- The consultant's draft report contained multiple factual and interpretive errors, leading to unsubstantiated capital and operating expenditure reductions of between \$900 million and \$1.7 billion (combined across WaterNSW) to our required bulk water expenditures over the 2025-30 determination period. The calculations supporting the reductions are not supported by evidence. We asked for a copy of the supporting models and supporting assumptions, but these have never been provided.
- Atkins provided feedback on our Asset Management processes, noting concerns about the maturity of our Asset Management plan. However, specific evidence or detailed rationale supporting these observations was not included. This goes directly against the findings of FTI Consulting in its September 2023 review, that noted our systems and processes were of a standard

and maturity expected for similarly sized organisations. In the 2022 determination, WaterNSW was criticised for not providing business cases for its capital projects. In response, we devoted significant resources to review our asset management practices and develop robust business cases for our 2024 pricing proposal. This included preparing business cases for investments by valley along with the associated asset class strategies and valley asset strategies and prioritisation assessments. In total this exceeded 4,500 pages of evidentiary material, contradicting IPART's comments of the lack of business cases and audit trails provided.

- We were (and remain) concerned that the compressed timeline for the expenditure review compared to previous reviews (i.e. 9 months rather than 12 months). Available funding may have severely impacted the consultant's ability to provide the analysis necessary to inform recommendations for the sustainable level of investment needed to maintain service levels and deliver the outcomes our customers are seeking at an acceptable level of risk.
- We are unsure as to how IPART can use the Atkins report to support its determination where multiple consultants provided differing approaches to an upper and lower expenditure allowance, with no justification as to the upper and lower bounds and little detailed analysis supporting their conclusions regarding the prudence and efficiency of our proposals.

WaterNSW formally expressed fundamental concerns with the lack of supporting facts and evidence in the Atkins review in our responses to the Atkins draft and final reports. I have attached our 19 March 2025 and 19 June 2025 correspondence for your convenience, the key elements of which are summarised in Attachment A.

Approach to the WACC

As stated in my 28 November letter regarding the agenda for the 3 December meeting, WaterNSW will be refinancing a portion of its debt in February 2026. This provides a degree of urgency to obtaining guidance on the Tribunal's approach to WACC, and whether it will honour its previous comment to transition to both the current and long-term trailing averages for the cost of debt. We also seek guidance on the length of regulatory period as this may define the tenor over which the "current" portion of debt is issued.

I seek your assistance for IPART to provide guidance to WaterNSW on the Tribunal's likely approach to the above matters by the end of January, to enable WaterNSW to move towards consistency of our debt issuances with IPART's regulatory allowances.

As always, we remain committed to working with IPART to assist it in fulfilling its objectives.

Yours sincerely



Peter Duncan AM
WaterNSW Chair

Attachments:

- A. Summary of our concerns with the Atkins' analysis and findings (shown below)
- B. WaterNSW 19 March 2025 response to the Atkins draft report (cover letter)
- C. WaterNSW 19 March 2025 response to the Atkins draft report (detailed attachment)
- D. WaterNSW 19 June 2025 letter to IPART regarding confidentiality check of the AtkinsRealis expenditure report for Rural Valleys

Attachment A – Summary of our main concerns with the Atkins' analysis and findings

WaterNSW expressed fundamental concerns in our 19 March response with the Atkins approach and findings. Our concerns as summarised below include:

- **Operating cost reductions lack substantiation** - The consultant provided no uplift to our future operating expenditure arising from changes in regulatory obligations, when clearly there is a non-zero uplift in our costs. The consultant also treated many regulatory and policy obligations as 'optional' and reduced required expenditure accordingly. Atkins seem to have ignored much of the analysis provided by WaterNSW or have disregarded the information in several cases.
- **Inconsistent application of principles/approaches and the 3Cs framework** - Atkins inappropriately adopts an approach for the lower bound operating expenditure findings based on the allowance contained in the 2022 Determination - a decision almost four years ago made under a different regulatory regime and one entirely inconsistent with the 3Cs framework.
- **Atkins removed projects our customers supported** - Atkins recommended the removal of projects that our customers supported during our detailed engagement process. In removing the costs of our proposed Water Insights Portal (\$7.8 million) the consultant stated the "benefits around community engagement, community information and education and customer notification while desirable are not mandatory or core". This appears to ignore the outcomes of a 20-month customer engagement process that was designed to identify customer preferences. An arbitrary reduction runs counter to IPART's 3Cs framework that seeks to embed customer preferences in investment decisions.
- **System and process review findings do not appear to be incorporated** - WaterNSW notes significant inconsistencies between the findings of IPART's 2023 system and process review conducted by FTI Consulting (FTI) and the conclusions drawn in the expenditure reviews, particularly within the Atkins Rural Valleys draft report.

We are concerned that the reports contain incorrect comments regarding our asset management and governance processes, which contradict the FTI findings. The FTI report found that our systems and processes were of a standard and maturity expected for similarly sized organisations. We can see no evidence that the consultants have considered those prior findings, given the inconsistent advice and the re-prosecution of issues that were covered in the FTI review process.

- We were **not provided with a valley-by-valley assessment** of the recommended expenditures that is required to understand potential pricing impacts. We note that this information has been provided in all prior Rural Valley reviews. Our customers have expressed a strong desire to understand potential pricing impacts in each valley, and the lack of this information in the draft report is likely to draw strong negative public criticism.
- **Flawed digital benchmarking** - WaterNSW does not support the benchmarking methodology used by AtkinsRéalisis, which is flawed, overly simplistic, makes little attempt to normalise results and is unsuitable for revenue-setting purposes. The benchmarking fails to account for WaterNSW's unique operating model as a bulk water provider covering metropolitan and rural services in

addition to its role in delivering services to customers on behalf of the NSW Government (as it relates to WAMC). It also fails to consider increasing legislative requirements such as the Security of Critical Infrastructure Act and the Privacy Act and new operating licence requirements, all of which require investment in systems and processes to protect sensitive data. Despite acknowledging some of the limitations of benchmarking, Atkins nonetheless uses it to justify reductions in WaterNSW's digital expenditure.

Drawing a causal relationship between the total capital program and the recommended digital allowance insufficiently recognises the nature of the activities and obligations WaterNSW is required to meet.

Removal of Water Insights project that undermines the overall effectiveness of our digital strategy and was directly aligned to delivering customer value

- **Absence of risk assessments by the expenditure reviewers** - Potential impacts to asset integrity and performance, customer outcomes, staffing levels, safety (staff, public and contractors) and incentives for future investment associated with significant proposed cuts warrant a much more fulsome review. In the absence of this risk assessment, WaterNSW suggests that the lower bound of the range in all cases should be given no weighting and not used as a basis to average upper/lower bounds due to the risks involved and the arbitrary nature of the reductions.

Other concerns highlighted in our 19 March response to the Atkins' draft report include:

- The report significantly **misunderstands and mischaracterises WaterNSW's legislative obligations**, particularly in relation to the environmental obligations.
- The **methodology used to adjust the Rural Valleys renewals program was based upon a selective analysis** of content not discussed during interviews and presents a high-risk approach. This is illustrated by the disconnect between findings for the Oberton to Duckmaloi Pipeline project, (assessed as prudent), and program level adjustments, which make the execution of this project impossible.
- It is apparent that the consultant has **erred by overreaching in opining on matters that outside of the scope** of an expenditure review. In particular, Atkins comments on matters for a cost share review that require an understanding of the guidance provided by the National Water Initiative agreements, contextual guidance provided by Intergovernmental Agreement on National Competition Policy, NSW Government policy and a direct assessment of customer affordability. As a result, all recommendations that are based on who should pay for an activity or investment should be removed.
- Atkins adopts a **simplistic approach to evaluating WaterNSW investment needs** that draws upon a summarised asset health report, which is then used to propose historic expenditure levels to determine the upper and lower ranges. The Atkins approach ignores any application of sound asset management practices, proposed 'backwards looking' level of investment and provides no consideration or alignment to the actual works proposed by WaterNSW as part of the renewal program. The implied notion that WaterNSW can continue to prudently manage an ageing asset base based on historic levels of expenditure is misplaced and inconsistent with other water utilities facing similar circumstances.

- **The cursory nature of the Atkins analysis of the renewals requirements lacks rigour, relies upon a selective reading of data and lacks the review of a representative sample of the program.** The basis of program level findings is unclear, and **valley level findings were not provided** with the draft report as opposed to the practice in prior reviews.
- As outlined in our 19 June 2025 letter, we remained concerned that the **Atkins' draft report did 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 were disappointed to see the consultant's final report - that we received three months after our response to the draft report - **contained 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 was an attachment where the consultant summarily dismissed our concerns at a high level that is devoid of any analysis or detail.