23 June 2025

Independent Pricing and Regulatory Tribunal NSW
Via online submission portal

SUBMISSION TO THE INDEPENDENT PRICING AND REGULATORY TRIBUNAL ON ITS DRAFT DETERMINATION ON SYDNEY WATER'S 2025-2030 PRICE PROPOSAL

Infrastructure Partnerships Australia is pleased to provide this submission to the NSW Independent Pricing and Regulatory Tribunal (IPART) on its draft determination on Sydney Water's price proposal for the period 1 October 2025 to 30 June 2030.

Infrastructure Partnerships Australia is an independent think tank and executive member network, providing research focused on excellence in social and economic infrastructure. We exist to shape public debate and drive reform for the national interest. As the national voice for the infrastructure sector in Australia, our membership reflects a diverse range of public and private sector entities, including infrastructure owners, operators, financiers, advisers, technology providers and policy makers.

The commentary in our December submission to IPART on Sydney Water's price proposal remains relevant to this draft determination and is hyperlinked for reference. It is essential this price determination process enables an efficient and prudent approach to capital investment, allowing for timely asset renewals while accommodating for long-term growth. Sydney Water is navigating a range of contemporary challenges including an ageing asset base, growing service demand and increasingly unpredictable climate conditions. Addressing these challenges requires a step change and sustained uplift in capital investment to maintain reliable water services and meet community expectations. Infrastructure Partnerships Australia acknowledges it is IPART's role to scrutinise efficient expenditure in the interest of consumers, and recognises this will often give rise to differing views than those of utilities as to what constitutes necessary investment. This regulatory tension is crucial to efficient outcomes – but this setting is a two-way valve where the regulator must also protect the long-term interest of consumers, by ensuring sufficient revenue is available to meet reasonable investment needs that enable efficient services. Unnecessarily deferring capital works that Sydney Water has identified as required in this pricing period to beyond 2030 introduces material service delivery risks – and ultimately shifts the burden of essential infrastructure upgrades to future generations.

IPART's draft five-year pricing determination includes $10.7 billion in capital expenditure – a $5.9 billion (35 per cent) reduction to Sydney Water's proposal. This includes a 34 per cent decrease for growth expenditure

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and a 33 per cent decrease in renewal expenditure. In its current form, the determination risks exposing consumers to increased likelihood of asset failure, reduced service reliability and delays in connecting new housing developments to essential water infrastructure. When finalising its determination, it is incumbent upon IPART to ensure Sydney Water retains the capability to deliver services aligned with current government policy, particularly in the context of housing targets, climate resilience and asset performance.

While Infrastructure Partnerships Australia recognises the importance of managing bills, this must be carefully balanced with the need to maintain service standards and support long-term infrastructure delivery. IPART must navigate a tripartite tension between asset efficiency, user bills, and shareholder returns, this tension risks being undermined if artificially suppressing bills in the name of short-term affordability becomes the dominant focus. This ultimately, and potentially inefficiently, shifts the burden of paying for renewals which cannot be indefinitely deferred onto future generations creating profound intergenerational equity risks. In this regard, we welcome IPART's recommendations to improve the approach to rebates and increase the variable component of bills as means to manage consumer impacts without delaying necessary asset investment.

IPART's reduction in growth capital expenditure does not wholly account for Government's housing policy commitments and could impede the delivery of housing

In the draft determination, expenditure for growth infrastructure is subject to the largest reduction in the capital investment program, with IPART determining the level of efficient capital expenditure for growth infrastructure as $6.7 billion, $3.4 billion lower than Sydney Water's $10.1 billion proposal. Water infrastructure for housing is a key driver of Sydney Water's growth expenditure, including connecting greenfield housing developments to water, wastewater and stormwater services.

IPART's justification to significantly reduce Sydney Water's growth capital allowance is rooted in contradictory housing growth forecasts that do not compare like policy settings. IPART has accepted a capital expenditure profile for growth infrastructure modelled on the Sydney Housing Supply Forecast (SHSF), which is based on Government housing forecasts as of December 2023. This provides a much lower growth estimation than Sydney Water's forecast, which relies on a combination of Urban Growth Intelligence (UGI) forecasts, the SHSF and Transport for NSW's (TfNSW) Travel Zone Projections. UGI forecasts are based on developer and planning information, with Sydney Water using only high confidence UGI data. For areas of the UGI that are not high confidence, Sydney Water uses both the SHSF and Travel Zone Projections which are based on TfNSW's population, dwellings, workforce and employment forecasts. IPART's singular reliance on the SHSF is problematic, as it has a cutoff point of December 2023 and does not account for substantial new Government housing policies, or any related budgetary decisions taken from 2024 onwards.

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Infrastructure Partnerships Australia acknowledges IPART's role in scrutinising the data supporting utilities' expenditure forecasts. However, it is challenging to understand the rationale behind expenditure determinations that do not wholly account for current government housing commitments. If IPART has adopted this lower expenditure figure which explicitly does not align with current government policy, it must provide further rationale on its justification for deviating from the Government's targets. This introduces significant risks, particularly for Sydney Water, which may struggle to deliver new connections on time. Instances across New South Wales have been well documented where newly constructed greenfield dwellings have been left vacant while waiting for necessary water connections. Such delays pose risks to Sydney Water and could jeopardise the Government's ability to meet its housing targets as well as send mixed signals to the market, undermining broader housing objectives.

The draft determination introduces a high level of risk on the capability of existing assets to deliver reliable services following adverse climate events

IPART has determined that $3.7 billion is the efficient level of capital investment for renewing Sydney Water's asset base, $1.8 billion lower than Sydney Water's $5.5 billion proposal. Sydney Water's price proposal sets out the condition of the utility's asset base, with 15 per cent of its assets fully depreciated and approximately 26 per cent past their theoretical end-of-life. In the face of external pressures such as a growing population, ageing assets, increasing resilience demands and the higher costs of capital, it is vital to maintain the ability of the existing asset base to adequately deliver services now and into the future.

The capital expenditure allowance in the draft determination excludes 75 per cent of Sydney Water's $957 million Pretreatment Program. The Program would upgrade eight filtration plants including $697 million in this determination period for the Prospect Pre-Treatment Plant. The Prospect Plant is responsible for the treatment of water for over 80 per cent of Greater Sydney households. In December a $322 million contract was awarded to construct the new Prospect Pre-Treatment Plant. IPART's decision to defer the majority of this program (all works except upgrading the Nepean water plant) is underpinned by its assertion that there is not sufficient justification for the works to happen in this determination period. It is important to acknowledge that deferring these works introduces a higher chance of future water restrictions and boil water notices during adverse weather events. Furthermore, the decision sends a negative signal to market participants whereby a project which has progressed to the point of appointing a contractor is no longer deemed as sufficiently necessary to proceed. Over-relying on Sydney Water's historical ability to manage such events – a point referenced in the draft determination – should not supersede a proactive approach to ensuring the capacity of assets to reliably deliver services including meeting compliance standards and water quality requirements.

Capital works investment in Australian water utilities has historically been highly cyclical, often driven by reactive responses to adverse weather events. This approach, while necessary in some cases, leads to inefficiencies and missed opportunities for a sustained rollout of long-term asset requirements. To address this, water utilities should be enabled through the regulatory process to adopt proactive investment approaches that anticipate future challenges, rather than reacting to immediate crises. This was a key objective of IPART's updated Water Regulation Handbook, released in 2023, which articulated the need for utilities to develop long-term investment plans to deal with approaching supply and demand challenges. By focusing on forward planning and implementing necessary investments, utilities can better prepare for changing climate patterns and evolving water demands, ensuring more resilient and efficient infrastructure that comes at a lower cost in the long-term interest of customers.

Infrastructure Partnerships Australia again recognises IPART's role in scrutinising what efficient expenditure is in the long-term interest of consumers, and that there will often be a natural divergence with a utility's view of what is required. This regulatory tension is crucial to efficient outcomes, but this setting is a two-way valve where the regulator must also protect consumers' long-term interests by allowing sufficient revenue to meet reasonable investment needs that ensure continued service quality.

There is latent capacity in the civil infrastructure market during this regulatory period which can be capitalised on to deliver these works

In its draft determination, IPART signals doubt on the achievability of the expenditure levels outlined in Sydney Water's pricing proposal. We note the deliverability of the capital program within prevailing market conditions was an issue explicitly raised by the NSW Government in its public letter to IPART, which directed IPART to consider this matter as part of its assessment. Restricted market capacity has also been highlighted by the regulator's independent consultants who suggest state-wide constraints on infrastructure contracts are likely to continue for at least the first half of the regulatory period. Contemporary market data, including that produced by Infrastructure Partnerships Australia[1] challenges that assumption and identifies latent capacity in the infrastructure market, which the water sector can capitalise on.

The Australian infrastructure market is currently at the tail-end of a 15-year transport infrastructure boom. There are many large programs of work across Australia moving past their peak construction phases – including Sydney Metro, Cross River Rail, West Gate Tunnel and Melbourne Metro Tunnel. The volume of transport projects replacing these programs in the pipeline pales in comparison. The prevailing view in the Australian infrastructure market was that as this king tide of transport infrastructure tide began to ebb, it would be replaced by an incoming wave of energy projects that would fill the capacity gap in the market. In practice, the energy sector has been impacted by significant delays, descoping, or deferrals of projects. This has created an "Air Bubble'' of latent capacity in the infrastructure market. Further information on

[1] Infrastructure Partnerships Australia's 'Air Bubble' analysis, first introduced in December 2024 and reran with updated market data in February 2025. Access further information here.

Infrastructure Partnerships Australia's Air Bubble analysis can be accessed here. The Air Bubble is very pronounced in NSW with a tapering of expenditure on transport projects expected to occur next year. Despite the emergence of an Air Bubble, in the long-term NSW still holds a significant potential energy pipeline. As the State refines its planning and approvals processes, projects will increasingly move towards delivery and the Air Bubble – and the opportunity it presents – will recede.

Sydney Water has demonstrated its ability to scale up its capital investment program in the previous pricing period and while not all skills requirements are transferable between assets, Infrastructure Partnerships Australia submits that this Air Bubble presents an opportunity for Sydney Water to deliver its capital investment program within favorable market conditions during this determination period.

The regulatory system needs to be able to independently assess prudent and efficient costs; means tested welfare should then come in for those who can't pay

IPART's draft determination would see typical household bills for water and wastewater services increase by about 6 per cent in 2025-26, plus inflation, followed by increases of 5.7 per cent, 3.8 per cent, 3.8 per cent and 3.7 per cent in each of the next 4 years respectively. This is considerably lower than the increase proposed by Sydney Water of 18 per cent and then a further increase of 7 per cent plus inflation for the remaining four years.

User charging for water infrastructure is the fairest way to ensure all beneficiaries contribute fairly to building and maintaining water infrastructure. It provides an equitable and sustainable way of paying for the maintenance and upgrade of the network. Affordability is a central concern of the determination process. Infrastructure Partnerships Australia acknowledges the work IPART has completed on managing affordability, including altering the pricing structure to increase the variable component of bills allowing households more control over their bills through managing usage. We also welcome IPART's identification of improvements to rebate schemes, to ensure vulnerable customers are sufficiently supported.

While managing the impacts on user bills is an important feature of the regulatory process, it must be appropriately balanced with ensuring the operational efficiency of assets. It is critical that decisions about who can and cannot afford water bills are managed outside of the regulatory pricing framework. Affordability is best addressed through targeted, government-funded welfare mechanisms, such as pensioner concessions, low-income rebates, and emergency assistance schemes. This ensures that the core economic regulatory task – determining the efficient and prudent costs of service provision – is not compromised. Suppressing revenue through artificially low prices to address affordability concerns risks leading to underinvestment in core infrastructure, ultimately impacting long-term service delivery and resilience – the negative consequences of which we have seen borne out overseas.

The United Kingdom provides a cautionary tale on the risks of prolonged underinvestment in assets

As Infrastructure Partnerships Australia has previously highlighted, international examples heed fair warning to Australia's water regulators on the risks of prolonged underinvestment in water infrastructure. The failure to determine an appropriate amount of revenue has been severely exposed in the United Kingdom's water sector. Consistent artificial suppression of regulated revenues over time has resulted in underinvestment in infrastructure and left water utilities unable to adequately provide water and wastewater services. Consequently, there has been a failure in the provision of services, with millions of litres of untreated sewage pumped into the environment, and a sharp increase required from current bill payers to remedy the regulatory failures of the past. While the United Kingdom's water utilities have a distinct set of challenges to Sydney Water, this example serves to illustrate the consequences of neglecting the long-term interests of consumers through prolonged underinvestment in water infrastructure.

Infrastructure Partnerships Australia looks forward to further assisting IPART. If you require additional detail or information, please do not hesitate to contact Senior Policy Manager, Katie Dempsey, on [redacted]

Yours Sincerely,

[redacted]

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