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Independent Pricing and Regulatory Tribunal NSW
Via online submission portal

Submission to the Independent Pricing and Regulatory Tribunal NSW on Draft Determination of WaterNSW prices for Greater Sydney customers

Infrastructure Partnerships Australia is pleased to provide this submission to the NSW Independent Pricing and Regulatory Tribunal (IPART) on its review of WaterNSW's 2025-2030 pricing proposal for bulk water, raw water and unfiltered water services in the Greater Sydney area.

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.

WaterNSW's pricing proposal and IPART's draft determination make it clear that WaterNSW faces structural challenges that require intricate solutions to overcome. Infrastructure Partnerships Australia acknowledges that these require careful consideration by the Government, IPART and WaterNSW to ensure customers can continue to receive reliable services. Due consideration of these broader issues goes beyond the scope of the regulatory process and may require wider reform to enable WaterNSW's effective operation. Nonetheless, we are troubled by IPART's proposal to effectively halt major capital expenditure over the next three years, deferring a significant capital works program. Such a significant deferral in asset investment to future pricing periods risks significant consequences stemming from underinvestment and is not in the long-term interest of consumers. Further, the heavily constrained draft determination by IPART will impact WaterNSW's ability to effectively operate and provide reliable services during the next three years. It is extremely challenging to credibly consider an argument that this would not negatively impact customers now and into the future.

Notably for such a significant reduction in capital investment between WaterNSW's proposal and the draft determination, the regulatory process appears to depart from usual transparency standards. Neither a comprehensive Draft Report nor an independent consultant's report were published to



provide the necessary clarity on IPART's decision-making, including why it deems these capital investments as prudent to delay.

This draft determination raises questions on the continued effectiveness of the regulatory process in balancing the tripartite tension between ensuring the operational efficiency and capacity of assets, shareholder returns and managing user bills. International examples illustrate the consequences of regulatory failure leading to prolonged underinvestment in water infrastructure, particularly in the UK, and we must heed the lessons these precedents provide.

The current determination does not allow for a sustained investment in water infrastructure and impedes Water NSW's ability to provide reliable services

IPART's alternative proposed three-year pricing determination would see a price increase of 6.9 per cent plus inflation for Greater Sydney customers in the first year, followed by inflation alone in the final two years, allowing just \$82 million for new capital expenditure across this period. In the face of an ageing asset base, it is imperative that the regulatory process allows for a balance to be struck between a sustainable capital investment approach to ensure assets don't reach a point of failure and managing cost impacts to customers. IPART's determination in its current form does not strike this balance.

Supply and demand side pressures have changed the nature of WaterNSW's operations. These include an increased likelihood of extreme climate events and a long-term downward forecast in water consumption. Despite this downward consumption forecast, significant fixed costs including asset maintenance and protecting water catchments remain constant. The \$82 million capital investment determination by IPART over the three years starkly contrasts with WaterNSW's \$1.5 billion capital expenditure proposal for Greater Sydney customers over the full five-year period, or \$836 million over the first three years. WaterNSW considers this investment as necessary to provide safe and reliable water supply, including ensuring compliance with regulatory requirements around dam safety. WaterNSW has also advised its capital program proposal for Greater Sydney was \$344 million lower than its original needs assessment as it nominated to take on more financial and operational risk through deferrals to minimise price impacts on customers. We acknowledge that IPART's role is to scrutinise the efficient expenditure in the 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 protect consumers by allowing sufficient revenue to meet the reasonable investment needs. In this instance, the scale of the capital investment reduction over the three-year pricing period will create a backlog of projects that cannot be delayed indefinitely and will have to be paid for eventually at greater costs. The best time for rolling-out sensible,



long-term investment is when the dams are full. A proactive investment approach ultimately minimises user costs in the long run. Again, there is insufficient, and insufficiently plausible, justification in the draft determination to credibly defend that this is in the long-term interest of customers.

IPART has not followed best practice principles in reviewing this pricing proposal

Infrastructure Partnerships Australia is concerned about the level of transparency provided in this process, noting the lack of explanatory evidence provided to corroborate the draft decision. The information paper released alongside the draft determination does not provide the clarity present in previous regulatory processes and there appears to be a lack of detailed justification for the inference that the vast majority of WaterNSW's proposed capital expenditure for this pricing period is not deemed as necessary and efficient. Despite the release of a draft determination, a full analysis of WaterNSW's expenditure has not been completed, and instead just a few key safety-related expenditures have been incorporated into the revenue allowance for the three-year period. Detailed explanation and scrutiny around why these expenditures – which include operating costs for dam, crane, and electrical safety and some initial capital costs for the Warragamba Dam Resilience Project – were initially deemed as essential and why other costs in WaterNSW's proposal were not, is absent in the information paper.

IPART's price setting rationale has been informed by third party consultants who have identified potential areas for efficiency or cost reduction in WaterNSW's pricing proposal. In a departure from previous regulatory periods – as well as concurrent processes to set prices for Sydney Water and Hunter Water – the consultant's report has not been published alongside the draft determination. Acknowledging the structural challenges surrounding WaterNSW's operation, Infrastructure Partnerships Australia recognises that a delay may be warranted to give more time to address these broader issues. However, if underlying analysis has not been finalised, it is premature to rely on preliminary conclusions as justification for the low expenditure allowance set out in the draft determination. A further consequence of not publishing all underlying analysis is that stakeholders do not have the necessary information to engage with the draft determination in a meaningful way. This is particularly impactful for the NSW Government, who will likely need to rely on IPART's analysis to inform both their upcoming State Budget and any potential review of the sustainability of WaterNSW's operating model resulting from this determination period. Regulators should strive to undertake a complete, evidence-driven and transparent process in making their draft and final pricing determinations – particularly if the outcomes are drastically different to those proposed by the utility.

The current determination impacts the ability of WaterNSW to sustainably provide bulk water services



WaterNSW projects to make a net loss of \$29 million in FY2024-25, and a \$6 million loss the following financial year, as outlined in its 2024-25 Statement of Corporate Intent. The reduced revenue during the proposed three-year determination period may further impact its financial sustainability. WaterNSW has requested IPART consider its financial capacity to manage the costs of providing safe and reliable water supply during the determination process. Infrastructure Partnerships Australia cautions IPART to further consider the significant financial risks posed to WaterNSW by the prices set for this three-year period.

The three-year pricing determination reflects a decision to over-prioritise short-term affordability at the expense of other elements of the tripartite tension between assets, returns and user bills, particularly the resilience of the asset base. This increases the risk that WaterNSW will be unable to deliver water services to legislated standards in a financially sustainable manner, now and in the future, harming the long-term interests of consumers. Overlooking the asset base in the tripartite equation risks deferring the responsibility of paying for renewals to future generations, and the longer assets are neglected, the higher these consequences become - an outcome we are already witnessing play out internationally.

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

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 and a different structure to WaterNSW, 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,

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