

23 June 2025

Ms Carmel Donnelly  
Chair  
Independent Pricing and Regulatory Tribunal  
PO Box K35  
Haymarket NSW 1240

**SDP submission to IPART's Draft Report for review of prices for Sydney Water Corporation  
from 1 October 2025**

Dear Ms Donnelly

Thank you for the opportunity to provide a submission to IPART's draft report for its review of prices for Sydney Water from 1 October 2025.

Reliable, high quality drinking water supply is an essential service that is critical to Sydney's continued growth and prosperity. At the Sydney Desalination Plant (SDP), we are proud to be an integral part of Sydney's long term water security as the city's only major rainfall independent source of drinking water. We are also proud of our long-term commitment to environmentally responsible and sustainable development.

IPART sets SDP's prices such that it is financially indifferent to the amount of water supplied to Sydney Water. SDP supports the economic regulation of water supply by IPART because it ensures that customers receive this essential service at an efficient price and within a stable, predictable regulatory framework. SDP's response to the draft report is limited to a small number of matters outlined further below.

**IPART's draft decision to remove the SDP fixed service charge cost pass-through may increase the total cost of bulk water supply in Greater Sydney**

IPART's draft decision is to discontinue the SDP fixed service charge cost pass-through in the Sydney Water Determination. The draft report cites SDP's change in operational mode from a drought response asset to now operating flexibly to contribute to Greater Sydney's water security both during and outside of drought periods as the rationale for the decision. The draft report further notes the cost pass-through may bias Sydney Water's decision making on when and how to operationalise SDP for the purposes of water security management.

Sydney Water is required to order water from SDP in line with its Ministerially endorsed Decision Framework for SDP Operation [June 2022] which sets out how Sydney Water makes production requests to SDP. Compliance with the Decision Framework is a requirement of Sydney Water's Network Operator's Licence administered by IPART.

Since the Decision Framework was introduced in 2022, as far as SDP is aware, Sydney Water has made its production requests to SDP in line with the Decision Framework. For both the 2023-24 and 2024-25 financial year's Sydney Water ordered close to the minimum baseline production amount of 23GL per annum from SDP to minimise the total cost to customers because Greater Sydney's dam levels were above 90%.

IPART's draft decision to remove the SDP fixed service charge cost pass-through and instead provide a fixed forecast volume of bulk water supply from SDP means customers will pay for this water regardless of whether it is required or supplied. Further, there may also be inconsistency in

the Sydney Water and SDP operating licences in relation to how water is ordered.

SDP considers the fixed service charge cost pass-through is appropriate and ensures customers only pay the efficient cost of bulk water supply. Sydney Water is best placed to manage its bulk water ordering to optimise the contribution of SDP to water security and drought management consistent with the NSW Government's 2022 Greater Sydney Water Strategy.

It is already a requirement of its Operator's Licence that Sydney Water operate SDP in such a way that balances risk of water security and water continuity with the total costs to customers. IPART review's Sydney Water's water ordering decisions as part of its annual licence review process which should already provide a sufficient incentive to ensure compliance with the Decision Framework and also ensure that water ordered from SDP by Sydney Water is prudent.

In the event that water ordered was not considered prudent by IPART, that could inform IPART's approach to Sydney Water's future use of SDP in its next pricing determination. The cost pass through mechanism combined with a review by IPART of Sydney Water's use of SDP, ensures SDP can be used in the best interests of customers by contributing to water security in Greater Sydney in a way that is cost efficient.

SDP also notes that IPART is concurrently reviewing both the Sydney Water and WaterNSW (Greater Sydney) pricing proposals. IPART's draft decisions suggest it intends to maintain WaterNSW's existing pricing framework for bulk water supply in Greater Sydney, including the SDP Charging Mechanism which allows WaterNSW to recover the same amount of revenue irrespective of whether SDP is also supplying water to Sydney Water.<sup>1</sup>

SDP seeks clarity from IPART about how its draft decision to change the regulatory risk sharing framework for how Sydney Water procures water from SDP but not change its approach for WaterNSW Greater Sydney balance the interests of customers and the incentives Sydney Water faces to manage its bulk water ordering.

### **SDP supports a true-up for differences in bulk water costs arising from future reviews and an SDP Expansion**

SDP support's IPART's position to consider a future true-up of costs that may arise due to differences in the price of bulk water that may occur as part of future reviews of SDP and WaterNSW's prices.

The price Sydney Water pays for bulk water is separately regulated by IPART and may change during its determination period. A true-up will ensure Sydney Water's financial performance and position is not impacted by IPART's determination of prices for other regulated water businesses.

Further, SDP supports a true-up for the efficient costs of an expansion of SDP if it occurs during Sydney Water's next regulatory period. Importantly, the costs of an expansion will be reviewed by IPART and will only be passed through to customers to the extent they are considered prudent and efficient. However, the timing and costs associated with an expanded SDP are not known at this time and a true-up reflects an equitable risk sharing between customers and Sydney Water.

SDP generally supports regulatory practices that true-up costs for material prices changes that may occur for reasons outside a regulated business' control.

### **Sydney Water's proposed expenditure on network upgrades is required to facilitate a future expansion of SDP**

Sydney Water proposed network upgrades to enable the expansion of SDP and provide wider benefits to the Sydney Water network. IPART's draft decision accepted the recommendation of its independent expert advisor, AtkinsRéalis, that suggested the network upgrades are not essential to enable the expansion of SDP and could occur at a later stage to enable more supply from an expanded SDP when it comes online.

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<sup>1</sup> IPART, *Review of Prices for WaterNSW Greater Sydney from 1 July 2020*, June 2020, p. 68.

SDP seeks to clarify that the works will be required to enable the expansion of SDP. It is critical that the expanded plant when constructed can be tested and operated at full capacity prior to commissioning. The network expansion works are critical and need to be completed to ensure the expanded plant operates consistent with its design requirements and any defects can be rectified during the proving period phase. It is essential that Sydney Water is provided suitable funding and time to deliver these works prior to the completion of the expansion.

SDP supports Sydney Water's proposal to include these costs in full during the 2025-30 determination period. However, SDP understands these works are in an early planning stage and there is a degree of uncertainty about their scope and delivery timeframe. In lieu of providing the full costs, IPART should at least consider providing an allowance to progress planning and early works so Sydney Water can better understand when and how it will deliver these critical network upgrades.

**IPART should consider exclusions in its new incentive scheme framework**

IPART's draft decision is to not allow Sydney Water's proposed adjustments to both the operating and capital expenditure incentive mechanisms. While SDP does not have a view specifically on Sydney Water's proposal, we suggest IPART should consider adjustments or excluded items to its incentive schemes when costs are material and outside the control of the regulated business.

Including large and uncertain projects in a regulatory allowance that is subject to an incentive scheme can create windfall gains for a regulated business if the uncertain project does not proceed. Conversely it can create material losses if a regulatory allowance is not provided and the project proceeds during a regulatory period.

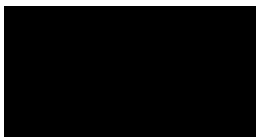
While IPART maintains discretion to exclude deferred projects from its calculation of its Capital Expenditure Sharing Scheme (CESS), the intent of the scheme is to be symmetrical and balance and share risks and rewards between customers and the regulated business.

For example, SDP must manage the replacement of reverse-osmosis membranes at the plant. The cost of membrane replacements is material, and the timing of replacement is closely correlated with the amount of water SDP supplies, which is controlled by Sydney Water. An exclusion for membrane replacements in the CESS would ensure prudent and efficient management, including identifying opportunities to defer expenditure without creating windfall gains and losses for customers or SDP.

SDP supports exclusions to IPART's incentive scheme framework for large and uncertain projects to ensure the scheme is symmetrical and encourages prudent and efficient management of regulatory allowances.

If you would like to discuss SDP's submission please do not hesitate to contact me, or Cameron Shields, SDP's Head of Regulation on [REDACTED]

Yours sincerely,



Philip Narezzi  
Chief Executive Officer  
Sydney Desalination Plant Pty Limited