

WSAA submission to IPART on prices for WaterNSW bulk water services

WSAA welcomes the opportunity to provide comments on IPART's information paper on WaterNSW prices.

Summary

WSAA made submissions to the Hunter Water and Sydney Water price determinations in December 2024. We made three central points:

1. Investment is increasing significantly across the water sector. It represents a step change, rather than a once off peak. The proposals from the NSW water utilities are typical of what we expect to see across the sector at this time.
2. There are risks if investment is not made. The UK provides lessons in the risks of not matching investment to the needs of customers.
3. Cost of living is a significant issue, but we should not kick the investment tin down the road. There are several ways of handling a cost-of-living crisis. Deferring investment carries significant risks.

IPART appears not to have taken this context into account in its draft determination for WaterNSW.

Based on IPART's information paper, WSAA considers that the draft determinations of prices for bulk water for WaterNSW for Greater Sydney and the Rural Valleys are not consistent with the long-term interests of WaterNSW's customers, the environment or the NSW economy. As such, the draft determination represents a break down in the regulatory process. WSAA recommends that before its final determination, IPART undertake significant further work to set sustainable, prudent and efficient prices for bulk water customers in NSW.

A regulatory decision without a public rationale

IPART has not released a draft report for its price determination for WaterNSW; this is a significant deviation from its usual practice, and raises concerns for the transparency and accountability of the regulatory process. Instead, it has released an 'information paper'.

The information paper broadly rejects WaterNSW pricing proposals and sets out IPART's decision to set a three-year price path. With small adjustments for safety-related expenditure, IPART's decision is to continue the prices set out in the 2020 price determination. Under the decision, prices for:

- **WaterNSW Greater Sydney customers** would increase by 6.9% plus inflation from 1 October 2025, and then by inflation only on 1 July 2026, and 1 July 2027.
- **WaterNSW Rural Valleys customers** would increase by 1.9% plus inflation from 1 July 2025, and then by inflation only on 1 July 2026, and 1 July 2027.

The information paper is the only public documentation underpinning IPART's draft decisions and price determinations.

However, the information paper does not provide a sufficient rationale for the draft price determinations. It does not contain evidence, data, or analysis to underpin IPART's fundamental rejection of WaterNSW's pricing proposals. More fundamentally, it does not provide evidence data or analysis to support whether its own three-year price path is sufficient to allow WaterNSW to meet its regulatory and legislative functions, or maintain its long-term financial viability. As such it does not provide the information necessary to allow stakeholders to make informed comments.

For example, the information paper does not set out the basic information normally shared when IPART makes a draft or final price determination:

- There is no comment on whether last period expenditure is efficient or prudent.
- There are no overall capital expenditure or operating cost figures included.
- The annual revenue requirement is not set out.
- The financeability metrics presented have no underlying documentation to allow stakeholders to test the assumptions.

The information paper states that the expert reviewers have "raised concerns about the inadequacy in the justifications set out in WaterNSW's proposal and identified substantial areas for efficiencies or cost reduction." However, unlike for its other price reviews, IPART has not released these reports, and it has not provided a summary of their analysis.

This absence of basic information makes it very difficult for stakeholders to comment on the draft decision.

However, from what we can see, WSAA considers that the decision to 'roll prices forward' does not constitute setting prudent and efficient prices for WaterNSW.

Kicking the tin down the road on investment

Of greatest concern is that the draft decision does not appear to contain a sustainable level of capital investment for the next three years. WSAA has inferred the level of capital expenditure provided for in the draft prices, as it is not set out in IPART's information paper.

The information paper states that:

- For Great Sydney, capital expenditure maintains the real value of the RAB plus the additional amounts for Warragamba Dam resilience project (around \$82 million).
- For the Rural Valleys, capital expenditure maintains the real value of the RAB.

WSAA interprets this to mean that IPART has set capital expenditure equal to regulatory depreciation. This is of prima facie concern because Regulatory Asset Bases in the water industry are generally set well below the replacement cost of the assets, and hence regulatory depreciation tends to be significantly less than the ongoing renewal and maintenance needs of the infrastructure (let alone other drivers of investment). Our estimates appear to confirm this concern.

Table 1 sets out WaterNSW's average annual capital expenditure over the last regulatory period from its regulatory proposal and WSAA's estimate of the capital expenditure allowed for in the price determination.

Table 1 WaterNSW average annual capital expenditure

	Average annual CAPEX last determination	Estimated Annual CAPEX included in IPARTs Draft	Percentage decrease
Greater Sydney	\$116m	\$82m	29.3%
Rural Valley	\$91m	\$30m	67.0%

Note: Greater Sydney CAPEX is \$55m in regulatory depreciation plus one third of the \$82m each year for Warragamba Dam.

It appears IPART has reduced WaterNSW capital expenditure compared to the last determination period by 30 per cent in Greater Sydney and by two thirds in the Rural Valleys. We stress that this is not in relation to WaterNSW proposed capital expenditure, which is much higher, but to the capital expenditure outcomes for the last determination.

WSAA has publicly emphasised that capital expenditure is increasing steeply across the Australian water sector. These patterns are also observable in data in the Urban Water National Performance Report. WSAA is unaware of any Australian water utility that can reduce its capital expenditure in coming years. We are certainly not aware of any utility that can reduce its capital expenditure by two thirds.

It seems IPART's draft decision therefore 'kicks the tin down the road' on investment. WSAA considers this is not in the long-term interests of WaterNSW customers.

In relation to operating costs, it is even more difficult for stakeholders to comment. WaterNSW sought a 15 per cent increase in operating cost for Greater Sydney and a 43 percent increase in operating costs in the Rural Valleys. It is well known across the water sector and the economy more broadly that operating costs are increasing in real terms. Energy, materials, labour and contract costs are all increasing above inflation. Supply chain pressures and cybersecurity cost increases are well documented. WSAA notes that IPART's draft decisions for Sydney Water and Hunter Water approve real operating cost increases. While IPART has frozen WaterNSW's operating costs for three years at the levels set out in the 2020 determination, the information paper is silent on the steps IPART has taken to assure itself that WaterNSW can perform its regulatory and legislative functions with no real increase to operating costs.

WaterNSW's financial viability

The information paper asks:

Do you agree that IPART's draft pricing decisions are likely to provide adequate revenue to support WaterNSW's financeability for up to 3 years?

Based on the preceding discussion, WSAA suggests that no stakeholder other than WaterNSW can definitively comment on whether it will be financially viable over the next three years. IPART has not shared what revenue WaterNSW will receive under the draft decision. The credit metrics presented exist in isolation without any underpinning data.

This highlights the fundamental problem with IPART's draft decision and information paper. How can stakeholders assess whether the prices in the draft are optimal or strike the right

balance, if there is no detailed information available on whether they leave the utility financially viable?

That said, IPART's decisions on operating costs and capital costs raise the risk that in an environment of rising costs, WaterNSW will face financeability issues.

What should happen next

Based on the information paper, WSAA considers IPART's three-year draft determination, including the prices it contains, are not in the long-term interests of NSW customers, the environment or economy.

In WSAA's view, IPART should revert to its normal regulatory processes and set a long-term sustainable price path for WaterNSW. These processes should be transparent and accountable, including:

- an in-person, or several, in-person public hearings;
- release of the efficiency reviewers' reports, WaterNSW's response to them and IPART's assessment, so that they can be commented on by stakeholders;
- release of IPART's detailed reasons for its decisions and its response to stakeholder comments and feedback; and
- setting the prudent and efficient costs for WaterNSW in the final determination.

Contact

WSAA welcomes the opportunity to discuss this submission further.

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