



# **WaterNSW submission in response to the IPART Discussion Paper for new bulk water charges for Rural Valleys from 1 July 2026**

**20 November 2025**

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## Introduction

This document is WaterNSW's written response to IPART's *WaterNSW Rural Valleys pricing review 2025-26 – Discussion Paper (October 2025)* (Discussion Paper) issued by IPART on 23 October 2025 for new bulk water charges for Rural Valley customers from 1 July 2026.

The determination that commences on 1 July 2026 (2026 determination) follows IPART's decision in June 2025 to issue a one-year determination for 2025-26 Rural Valley bulk water charges (2025 determination). The 2025 determination did not apply IPART's usual "building block" assessment and instead applied a CPI price uplift to (then) existing prices, that included a modest uplift for electrical safety and crane safety, and adjusted for updated demand forecasts as stated below:

*Prices to apply from 1 July are based on existing prices, plus CPI, plus an uplift for key crane and electrical safety upgrades, the new Dams Safety Levy, and the updated demand forecasts.*

*While we have not based prices on an NRR[Net Revenue Requirement] this time, our intention will be to use our building block model and WaterNSW's Rural Valleys updated NRR to set prices in our next review. This is contingent on IPART receiving more information from WaterNSW to allow us to have confidence in the efficiency of the business's costs (both its base costs and its proposed step changes), and the allocation of costs between valleys to enable cost reflective pricing.<sup>1</sup>*

WaterNSW welcomes IPART's stated intention to revert to its building block framework for the 2026 determination. We note that many of the financial sustainability issues we are now facing are due in large part to IPART not providing a commercial rate of return on our past investments, which has led to our interest costs on our efficient debt levels being well above the allowances in the 2025 determination.

We will aim to support IPART's request for additional information and we look forward to seeing the terms of reference for the EY review of base costs to ensure we are able to best support this review. We note that we have provided extensive additional data to IPART to support it in this review, including detailed financial information going back 8 years at a detailed business unit level and staffing numbers over the past 10 years at an organisation level (6 years at a detailed business unit level). The ongoing information requests and determination process has become a significant regulatory cost burden on WaterNSW.

In its Discussion Paper, IPART seeks comment on several matters, including:

- WaterNSW's base costs
- Cost sharing arrangements
- The approach to the Weighted Average Cost of Capital (WACC)
- Alternative pricing-models to address affordability

Our response to these items and other insights are provided in this paper and summarised below. Many of our responses to this Discussion Paper were incorporated in our pricing proposal and our response to IPART's earlier Information Paper. We summarise them in this response as relevant.

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<sup>1</sup> IPART *Review of prices for WaterNSW-Rural Valleys from 1 July 2025 Final Report – June 2025*. Page 21.

## Summary

### This determination is a key watershed moment for rural bulk water pricing

IPART's "top down" one-year price path for 2025-26 as set in the 2025 determination **did not provide sufficient funding to keep WaterNSW solvent** and to allow us to meet our statutory and legal obligations.

WaterNSW is pleased that IPART plans to use its established building block framework for the 2026 determination, as this aligns with our commitment to serving customers' long-term interests and ensuring our own financial stability. We are hopeful that the challenges faced during the 2025 determination can be resolved and that the 2026 process will provide a practical framework benefiting both our customers and WaterNSW's financial health over time.

### Our key positions

The key positions in this response are summarised below:

- **WaterNSW has invested heavily in delivering against IPART's regulatory framework** – our original proposal was submitted on 30 September 2024 following a two-year period of extensive engagement with IPART, customers and stakeholders, undertaking our most in-depth customer engagement and consultation program in our history. WaterNSW has continued to extensively engage with IPART and its consultants since our comprehensive original proposal was lodged.
- **Length of determination period** – IPART considers there may be benefits to aligning the next review of WaterNSW's rural bulk water services with these reviews, to facilitate more effective assessment of common issues across all 3 reviews. On balance, WaterNSW proposes a 4-year determination period that provides a better balance than a shorter review for cost certainty, administrative burden and the ability to effectively engage with our Rural Valley customers in the leadup to the subsequent review.

If IPART determines that a 3-year determination period is appropriate, we ask that they also consider whether to continue to require WaterNSW to follow the 3Cs framework given the shorter timeline, impact on business as usual operations and cost.

- **We reject Atkins' key findings from the expenditure review** – the Discussion Paper sets out "key findings" from Atkins regarding the expenditure reviews undertaken following the lodgement of our pricing proposal in September 2024. WaterNSW was not provided with a "right of reply" on several findings where we believe Atkins erred and where we previously provided extensive rebuttal to IPART on the accuracy of the findings.

We reject any of Atkins' assertions relating to the accuracy of the findings, including our approach to asset management, cost benefit analyses, the purported "poor quality information" and the usefulness of a range with an 80% variation between WaterNSW's proposed capital expenditure and the upper and lower bound for capex and close to 40% for opex.

We highlight that in late 2023, IPART engaged FTI Consulting to undertake a review of our investment and governance systems and processes. FTI Consulting's findings confirmed that WaterNSW's processes are at a level and maturity of what they would expect for similar firms. The Atkins' findings are at odds with the FTI Consulting findings, suggesting that IPART should exercise caution and not solely apply the Atkins' findings (i.e. the "lower bound" recommendations should hold little to no weighting).

- **No guidance on how capital expenditure will be considered** – as noted above, WaterNSW rejects many of the Atkins’ findings, including the assumptions used to establish a “lower bound” expenditure. While Atkins’ was required in its terms of reference to prepare a lower bound assessment for capital expenditure, this in no way should suggest that it is fit-for-purpose to set regulatory allowances. In its 2025 determination, IPART set an estimate of capital expenditure to enable the calculation of an indicative notional revenue requirement for one year, 2025–26, of \$45.6 million, that was \$68 million (40%) lower than our proposal. IPART states that it *decided to use Atkins’ lower bound for the indicative analysis.*<sup>2</sup>

The Discussion Paper is silent on how IPART intends on assessing capital expenditure for the 2026 determination. We would not support an approach that simply extends the adoption of the Atkins’ lower bound (as was used for the on-year 2025 determination) for 2026 determination. Given the importance of this matter on our investment plans, the health of our assets and core customer outcomes we request that IPART provide further guidance on how it will approach capital expenditure for this review, and how stakeholders will be engaged.

- **IPART to apply its established regulatory framework** – WaterNSW welcomes IPART’s stated intention for the 2026 determination to apply IPART’s established regulatory framework, which IPART did not apply in the 2025 one-year determination. Good regulatory practice (in addition to compliance with IPART’s legislative requirements) suggests that IPART’s established framework is adopted for the 2026 determination.
- **IPART to honour its commitment on the WACC** – WaterNSW contends that IPART should revert to its standard WACC methodology for the upcoming determinations and honour its written representation to apply the debt transitions from the ACCC’s “on the day” approach to IPART’s trailing averages.

Advice obtained from WaterNSW confirmed that for the MDB valleys the only practical approach to match our debt portfolio to the IPART methodology as it moves from the “on the day” approach to IPART’s trailing average approach is to apply a 10-year transition to the trailing average for the long-term cost of debt and a 5-year transition for the current cost of debt. This approach would best reflect efficient financing costs and recognise the importance of regulatory stability and predictability for efficient investment in water infrastructure.

In the absence of IPART applying its WACC guidelines and its previous written confirmation that WaterNSW transition to a trailing average for the MDB valleys, WaterNSW is unable to manage its debt portfolio to achieve a risk neutral position with respect to the IPART allowed cost of debt.

IPART have known since the previous Rural Valleys determination that Rural Valleys was moving away from ACCC regulation and should have considered consulting on the approach to transition as part of the September 2024 review consultation process.

- **Cost shares** – WaterNSW’s review of IPART’s ‘impactor-pays’ approach to cost shares in the context of the National Water Initiative (NWI) raises several unanswered questions regarding cost shares in the present context of Rural Valleys bulk water pricing. These questions include whether impactor-pays for rural valleys is consistent with the NWI Pricing Principles – as these services are neither “urban” (user pays) nor “water planning and management” (impactor-pays); does IPART’s ‘counterfactual’ approach work in practice and is a fulsome review of cost shares practical for the 2026 determination.

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<sup>2</sup> IPART *Review of prices for WaterNSW-Rural Valleys from 1 July 2025 – Final Report, June 2025*. Page 69.

We acknowledge the significant challenge for IPART for this review to balance the potentially competing objectives of addressing customer affordability, not increasing costs to Government and ensuring WaterNSW is financially sustainable – a balance that is unlikely to be met by small changes to the existing cost share arrangements.

- **True-up for the 2025 determination** – There is limited guidance from IPART on how WaterNSW would treat unfunded revenues from 2025-26 arising from the 2025 determination when the 2026 final determination is made. The need for a true-up is heightened due to the unique circumstances in the 2025 determination that resulted in a “top down” determination for 2025-26 prices that departed from IPART’s usual established framework of setting efficient costs. We urge IPART to include a true-up mechanism for the 2026 determination for material matters, including the WACC and operating and capital expenditure variations.
- **Demand forecasting** – IPART has historically adopted a 20-year rolling average of water usage to set water usage charges, and maintained this approach at the 2025 determination. WaterNSW’s proposal to adopt a revenue cap in each valley was in part formed on the basis that resolving any over- or under-recovery of revenues could be best undertaken on an annual basis whereby annual price changes incorporate 1-year forecasts that are likely to have a relatively higher degree of confidence. The confidence in usage forecasts generally reduces dramatically as the forecasting period increases. Forecasting one-year in advance is our preferred approach and is consistent with the approach to pricing in other sectors (e.g. electricity distribution networks) where a revenue cap has been adopted as for form of control.

We are open to revisiting whether the significant time, resources and data required to develop and maintain a more sophisticated forecasting approach that takes customer behaviour and climate impacts into consideration for water usage for pricing purposes would yield forecasts with a higher degree of confidence. Analysis will not be available for the 2026 determination.

WaterNSW looks forward to working with IPART in the leadup to the subsequent determination to assess whether there is merit (and funding) to pursue the development of more accurate usage forecasting for pricing purposes.

- **Managing volume risk and the introduction a DVAM** – contrary to IPART’s assertion in the Discussion Paper, WaterNSW has undertaken extensive impact assessments across all rural valleys for the introduction of a revenue cap and or higher fixed charges in consultation with the CAGs.<sup>3</sup>

While our preference remains for a revenue cap (with side constraint’s to manage price variability for customers), a demand volatility adjustment mechanism (DVAM) is a second best option – albeit a more reactive and blunt instrument compared to a revenue cap with side constraints– that tracks the difference between actual and forecast revenue (volume) each year and adjusts future prices (up or down) at the subsequent review for material deviations outside a normal “deadband” (e.g. +/- 5% for Sydney Water and Hunter Water).

A DVAM shares volume risk between a utility and customers and WaterNSW observes that IPART has familiarity with the mechanism, which has been implemented by IPART under current legislation.

IPART first adopted a DVAM in 2013 and currently applies a DVAM for all but two water utilities (of which WaterNSW is one), highlighting that the mechanism is well understood and can be

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<sup>3</sup> – Attachment 13 Form of control (revenue cap or price cap);

- [https://www.waternsw.com.au/\\_\\_\\_data/assets/pdf\\_file/0004/263632/WaterNSW\\_Pricing\\_Proposal\\_2025-2030\\_Customer\\_Engagement\\_-\\_Phase\\_3\\_report.pdf](https://www.waternsw.com.au/___data/assets/pdf_file/0004/263632/WaterNSW_Pricing_Proposal_2025-2030_Customer_Engagement_-_Phase_3_report.pdf); and

- WaterNSW made available the full CAG slide decks used at every CAG meeting during the consultation process to IPART and its consultants via a SharePoint data room

implemented seamlessly and transparently. The analysis and intra-period pricing volatility concerns highlighted by IPART that might arise with a revenue cap are not a material concern with a DVAM.

- **Alternative approaches to addressing affordability** - There is merit in the further consideration of applying IPART's Opal fare (transport) model to rural bulk water pricing.

However, while the transport model warrants further consideration, its selection as the preferred model should be based on the outcome of a holistic review of the available (viable) options, rather than adopting the model on the basis of IPART having prior experience with it in another sector. The extensive time, effort and consultation that is required before a fundamental change to price setting should occur suggests that all viable options should be assessed against a set of agreed principles and criteria before embarking down the path of one possible solution.

Even if the transport model was selected as the preferred option, the time and resources required from IPART, customers, WaterNSW and Government to undertake a baseline assessment of the external benefits and costs of rural services will be considerable – likely well in excess of time available in the leadup to the 2026 determination.

WaterNSW notes that in other determinations IPART has used alternative approaches to setting prices adjusted for affordability that preserve the underlying signals of the long-term efficient costs, preserve clarity of the efficient allocation of those costs (cost shares), and provide transparency of the value of any subsidies or CSOs. Such approaches are well established and understood by customers, Government and WaterNSW and, as a minimum, could serve as a “no regrets” strategy to transition to an alternative price setting framework at a subsequent determination if or when a preferred alternative is identified, analysed and fully assessed by stakeholders.

- **Our transformation program** - WaterNSW is finalising a new baseline revenue requirement that takes into account IPART's recent regulatory decisions and the outcomes of our transformation program that will see a reduction of approximately 30% of our workforce (~300 staff). Our new Business Plan, which will be finalised in December, is likely to see lower capital and operating expenditures than contained in our 30 September 2024 pricing proposal to help address customer affordability, but this comes at a significant cost - a deterioration in some service levels and WaterNSW needing to take more financial, operational and regulatory risks.

Our response to IPART's information paper outlined a number of options that we are considering to address the differences between costs and revenues that would result in removing some customer supported initiatives (e.g. Water Insights) to focus on critical expenditure only, and removing or reducing some policy and regulatory-driven projects, such as fish passages and cold water pollution investments, that government had required WaterNSW to deliver.

- **We are committed to collaborating with IPART and Government** - Despite the concerns raised throughout this response, WaterNSW has sought to constructively engage with IPART and other stakeholders in the review process and in responding to the previous Information Paper and draft decision for the 2025 determination.

In engaging in the process, WaterNSW is committed to collaborating in good faith with all stakeholders to deliver evidence-based outcomes that recognise all parties' obligations, needs and priorities, with a focus on the long-term interests of our customers.

We support the exploration of a more effective regulatory approach for bulk water services in NSW and particularly for regional NSW, that is achievable when viewed through the lens of what is possible and practical for the 2026 determination. Our detailed comments are provided below.

# WaterNSW's detailed comments

## 1. Consequences of the 2025 determination

WaterNSW acknowledges IPART's intent in setting determinations that seek to balance affordability with customers' longer-term interests. However, there are several aspects of IPART's 2025 "top-down" determination that are likely to result in negative implications for customers in the 2026 determination. In particular:

### For customers

- **Higher prices at the 2026 review** - WaterNSW is concerned that the price paths set by IPART in the 2025 determination unreasonably will lead to higher prices in 2026 than would have been the case if IPART had issued a decision based on its assessment of WaterNSW's efficient costs. This places the burden of funding efficient water infrastructure on future customers and (potentially) generations.
- **Deteriorating service levels** - WaterNSW cannot provide services at the previous level based on the price levels in the 2025 determination. This is not sustainable. We are concerned about our ability to maintain the condition and serviceability of our assets at acceptable levels of risk based on the expenditure levels inherent in the 2025 determination.
- **High volume risk leads to pricing instability** - IPART has not proposed any change to the current form of control (e.g. price cap) or tariff structures for 2026 determination period. This exposes customers to high pricing volatility at each review and WaterNSW to significant revenue risk, at a time when it can least afford it. While we maintain our support for a revenue cap form of control, we propose that IPART implement a Demand Volatility Adjustment Mechanism (DVAM) for WaterNSW in the 2026 Determination. We look forward to discussing this important matter in the leadup to the final determination.
- **Future investment bottlenecks and deferred price increases** - In order to reduce the near-term price increases WaterNSW **deferred** \$830 million of capital works in our September 2024 proposal that met our preexisting risk and net present value criteria for investment. This was exacerbated by the need further adjust our capital plans by \$166 million in our 3 June submission based on the outcomes contained in IPART's information paper.

While these reductions have a short-term pricing benefit to today's customers the necessary and logical consequence is that these investments will not only become urgent and unavoidable in the future, they will (in all likelihood) be required simultaneously. The pricing consequences arising from a bow wave of investment are self-evident, but what is often overlooked is the compounding impact on the efficient costs that the market can deliver due to increased capacity pressure on the suppliers. In other words, it likely that being financially required to defer this volume of investment will not be in the long-term interests of customers.

### For WaterNSW

- **WaterNSW's financial viability is still under threat** - The implications on WaterNSW's debt management strategy, aimed at managing financing risk by aligning our borrowing with IPART's WACC guidelines is a significant concern. As discussed in Section 2.6, in the absence of IPART applying its WACC guidelines and its written confirmation that WaterNSW transition to a trailing

average for the MDB valleys, WaterNSW is unable to manage its debt portfolio so as to achieve a risk neutral position with respect to the IPART allowed cost of debt.

The Discussion Paper provides little guidance as to how IPART will calculate the WACC going forward or whether a mechanism will be provided to compensate WaterNSW for under-recovered funding costs (i.e. regulatory true-up of the cost of debt).

The effect of the 2025 determination is that IPART - by not following its own guidelines for determining the WACC - has locked in historically low interest rates (implicitly based on 2021 rates for MDB valleys) for 2025-26 and not addressing this in 2025 has likely made the problem worse for 2026. This is not sustainable and has contributed to our financial stress.

Equally concerning is that IPART has not followed its own written advice to WaterNSW supporting the transition to a trailing average cost of debt for the MDB valleys. Earlier this calendar year, WaterNSW refinanced its debt portfolio based on IPART's written support of transitions to IPART's trailing averages from the previous ACCC methodology in determining the cost of debt applied to MDB valleys in the 2021 determination. Regulatory certainty is a key foundation for debt and equity investors and IPART moving away from their guidelines in 2025 set a dangerous regulatory precedent.

We strongly **urge IPART to honour its previous written confirmation supporting** WaterNSW's approach to transition the MDB valleys to long-term and current trailing averages for the cost of debt.

- **Insufficient funding to meet our regulatory obligations** - WaterNSW would be unable to meet existing and new regulatory requirements due to the insufficient funding under the proposed operating expenditures from IPART's consultant (AtkinsRealis) during the expenditure reviews price paths. The "upper and lower" bound assessment approach has proven to be unsatisfactory as it has increased regulatory uncertainty, rather than reduced it, compared to the previous "point estimate" approach. The lower bound estimates should hold little or no weighting.
- **Foregone revenues** - WaterNSW considers that any under-recovered revenues foregone arising from the one-year 2025 determination, should form part of a revenue requirement adjustment for the 2026 determination.
- **Our transformation journey will take time** - While WaterNSW is implementing a significant transformation program, structural changes to our workforce and systems / processes would be required that will take time to redesign and implement in a sustainable manner. For instance, our workforce plans, digital systems, customer outcomes and the extent of our regional presence for new programs are all being reviewed in light of the revenue envelope provided by IPART. WaterNSW expects that the effect of the transformation is significant labour and non-labour related savings that will contribute to an easing in the need for customer price increases.

However, we also note that the transformation journey is likely to reduce some customer service levels and in WaterNSW taking on more business, operational and financial risks as we "cut our suit to fit the cloth" with our expected regulatory allowances.

## 2. Pricing and other issues

WaterNSW welcomes IPART's stated intention to apply its established regulatory framework for the 2026 determination noting IPART did not apply its usual framework for the 2025 determination. This would result in IPART applying :

- An overarching building block approach
- IPART's standard WACC method
- A roll forward of the regulatory asset bases (RAB) in each valley
- A roll forward of the 20-year rolling average of water volumes to calculate prices.
- The outcomes of IPART's detailed review of our forecast capital and operating expenditure programs
- A view on the form of control and tariff structures.

Good regulatory practice (in addition to compliance with IPART's legislative requirements) suggests that IPART's established framework should be followed. WaterNSW welcomes IPART's commitment to adopt its established framework.

### 2.1. Length of determination period

WaterNSW proposed a 5-year determination period in our September 2024 proposal, which is consistent with the default length under IPART's water regulatory framework. IPART determined that it wasn't in a position to issue a traditional building block determination and in 2025 and issued a short, 1-year determination.

WaterNSW's September 2024 proposal includes proposed costs up to 2029-30, enabling IPART to set a determination period of up to 4 years as part of the 2026 determination. IPART has indicated that it could also set a shorter determination period it considers there are benefits to doing so (e.g. uncertainty about cost forecasts in the latter years could lead IPART to setting shorter determination).

WaterNSW notes, however, that a shorter (i.e. 3-year) determination would mean that WaterNSW would have to start preparing its subsequent pricing proposal a few months after the 2026 determination is issued.

A 3-year determination would require earlier engagement with stakeholders and imposes an increased regulatory burden on WaterNSW and would likely lead to a "business as usual" proposal as we would not have the benefit of extensive customer engagement or any review by IPART of whether the 3Cs framework is fit-for-purpose moving forward in its current form or to fully consider how our transformation journey can be embedded into our next proposal.

IPART acknowledges that, in making its decision on the length of determination period, another factor it could consider is the timing of other relevant reviews. In September 2025, IPART issued:

- A 4-year determination for WaterNSW's services in Greater Sydney
- A 4-year determination for WAMC services.

IPART considers there may be benefits to aligning the next review of WaterNSW's rural bulk water services with these reviews, to facilitate more effective assessment of common issues across all 3 reviews.

While there are 'pros and cons' in deciding on the length of determination, on balance **WaterNSW proposes a 4-year determination period** that provides a better balance than a shorter review for cost certainty, administrative burden and the ability to effectively engage with our Rural Valley customers in the leadup to the subsequent review.

If IPART determines that a 3-year determination period is appropriate, we ask that they also consider whether to continue to require WaterNSW to follow the 3Cs framework given the shorter timeline, impact on business as usual operations and cost.

## 2.2. True-up of revenues

WaterNSW seek a **true-up of revenues** in the 2026 determination for any shortfall from IPART's 1-year 2025 determination and the 2021 determination as relevant for matters including WACC, operating and capital expenditure variations and the cost of debt true up from the 2021 and 2025 determinations.

There is limited guidance from IPART on how WaterNSW would recover unfunded revenues when the 2026 final determination is made. We urge IPART to include a true-up mechanism for the 2026 determination that reflects the unique circumstances of the 1-year 2025 determination.

## 2.3. Form of control

### 2.3.1. Managing revenue risk not satisfactorily addressed

While not explicitly rejecting WaterNSW's proposed revenue cap and tariff structure changes, IPART locked in the prior price cap and tariff structures for the 2025-26 and has signalled it is not minded to move away from these positions for the 2026 determination. This is disappointing as WaterNSW has undertaken thorough analysis and extensive customer engagement on these matters and have addressed issues of the fair sharing of volume risk in our proposal and attachments.

We note that changes to pricing structures, including introducing higher fixed charges, may also be appealing to some segments of our customer base and can be effective in managing volume risk in some segments (e.g. environmental water holders and other large users), but have had mixed support from other segments. We seek IPART's support in progressing potential changes to the form of control and pricing structures as part of the upcoming determination for Rural Valleys.

As a minimum, we seek IPART's guidance on the form of control and pricing options that IPART and customers may be willing to support to ensure we are able to provide targeted and effective engagement on these matters moving forward without creating unnecessary regulatory burden on stakeholders.

### 2.3.2. IPART has not accepted WaterNSW's proposal for a revenue cap

In the Discussion Paper, IPART states the following with respect to WaterNSW's pursuit of a revenue cap as the form of control for the Rural Valleys:

*We understand WaterNSW has not undertaken detailed impact assessment of its proposed alternative pricing structures, and our 2024-25 review of rural bulk water prices did not find evidence of widespread customer support for a change to the form of price control. Even if there is merit in a revenue cap, IPART would require detailed assessment of impacts and would also consider whether the water business is in a better position to manage water price volatility than its customers.*

WaterNSW does not agree with IPART's preliminary view of a lack of an impact assessment undertaken for a revenue cap. WaterNSW's engagement on a revenue cap (and potential changes to fixed charges) is summarised below. We also provide Attachment 2 that provides a sample of the detailed analysis provided to one sample CAG (noting this was replicated for the 10 CAGs).

WaterNSW took a deliberate and staged approach to its engagement with customers through the CAGs on pricing structures over a 9-month period at summarised below:

- WaterNSW introduced the financial and pricing issues that WaterNSW observes for both WaterNSW and customers (as discussed below) due to the indisputable inconsistency between fixed costs and fixed prices
- WaterNSW followed this by providing options for addressing the concerns, primarily the options of increasing fixed charges and reducing variable charges and the move towards a revenue cap form of regulation.
- In most valleys, CAG members expressed concerns at increasing the portion of fixed charges and requested more information on how the revenue cap works.
- WaterNSW responded at a subsequent round of CAG meetings with a stylised presentation of how the revenue cap would typically work. This was done as WaterNSW was concerned to ensure that the mechanics were understood first.
- Customers were understandably keen to understand how the revenue cap would have worked given the nature of each valley, and how that would compare to or work with increasing the fixed charges. WaterNSW sought feedback from each CAG on the scenarios that they wanted WaterNSW to undertake.
- It was generally agreed that WaterNSW should prepare four scenarios and the revenue target and compare the outcomes against an assumed target revenue. It was further agreed that WaterNSW should use the last 10 years of actual volumes and volume variances to produce the scenarios for each valley.
- WaterNSW responded to the following round of CAG meetings with the scenarios requested for each and every valley.
- The analysis shared with all valleys included four scenarios and the revenue target illustrating the revenue target compared the revenue/aggregate valley bill outcomes assuming either revenue cap or price cap and current or increased fixed charges.
- These scenarios used the last 10 years of water consumption would be repeated in sequence. In addition, to help CAG members gain a better understanding of alternative scenarios, the options and outcomes were shared with all valleys.

The current price cap exposes customers and WaterNSW to risks because:

- WaterNSW does not forecast the volume of water sales for the regulatory period - this is done by IPART through the adoption of the 20-year rolling average. WaterNSW is exposed to errors in these forecasts including fluctuations due to climate and customer behaviour. WaterNSW acknowledges that it is challenging to forecast water usage for the Rural Valleys but notes that the current price capping arrangements exaggerate the risk of under / over recovery.
- In many of the Rural Valleys, a highly variable tariff (60%) that is linked to water usage is the norm. Because WaterNSW's costs are approximately 90-95% fixed and do not vary materially with customer usage, we are exposed to revenue risk in the variable tariff. IPART's two-part price structure (fixed and variable charges) is set to achieve a fixed-to-variable revenue split of 40:60 for most valleys.
- IPART's usage assumptions are based on a historic 20-year rolling average of water usage for the Rural Valleys. Implicit in this assumption is that water usage will revert to the average or mean. However, the impact of climate change indicates that water usage is broadly declining, thereby placing upward pressure on variable charges. Changes in the 20-year rolling average, particularly if not adjusted for within a regulatory period, have the potential to lead to large 'inter-determination'

price shocks for customers. We saw this in 2021 and are seeing this again for the 2026 Determination period.

WaterNSW considers that a price cap has many redeeming qualities, and we would support its continued use if the fixed tariff structures more closely aligned with our underlying cost structures and or if IPART provided a mechanism to address volume variations (i.e. a Demand Volatility Adjustment Mechanism (DVAM) as discussed in Section 2.4).

Our customers were generally convinced with the logic of pursuing higher fixed charges in order to be a financially sustainable business. However, some were not supportive of the step change in fixed charges under a price cap, particularly in times of drought and low water usage that would be associated with a higher fixed pricing structure.

## 2.4. Introduction of a DVAM

Given the available options, WaterNSW considered that a revenue cap with a side constraint provided a reasonable balance between minimising pricing volatility with providing a mechanism that would provide WaterNSW with a reasonable opportunity to recover our efficient costs.

It is clear from the Discussion Paper that IPART is cynical about the introduction of a revenue cap. We also note IPART's view that IPART will "*consider whether the water business is in a better position to manage water price volatility than its customers*". With respect, this should not be the sole test as to whether volume risk is adequately managed. WaterNSW is an infrastructure provider that should have a reasonable opportunity to recover our efficient costs.

In reviewing IPART's other water utility determinations, it is clear IPART has familiarity with a Demand Management Volatility Adjustment Mechanism (DVAM) to manage volume risk. In fact, WaterNSW is one of only two firms (SDP being the other), where a DVAM has not been put in place to manage volume risk as highlighted in the figure below.

**Table 1 – IPART's adoption of a DVAM for all but two water utilities**

Company	DVAM	Deadband (% of AARR) ^
Sydney Water	YES	+/- 5%
Hunter Water	YES	+/- 5%
Central Coast Council	YES	+/- 5%
Essential Water	YES	+/- 5%
WaterNSW	NO	+/- 5%
SDP	NO*	+/- 5%

^ % of annual revenue requirement

\* Other mechanisms are in place to ensure SDP has a reasonable opportunity to recover its efficient costs.

WaterNSW observes that IPART has familiarity with a DVAM and that it is consistent with IPART's legislation. While our preference is for a revenue cap, a DVAM is a second best option to manage volume risk. WaterNSW notes that IPART stated the following with respect to its rationale for adopting a DVAM for another water utility (Hunter Water):

*We consider it appropriate to take a **risk sharing approach between the utility and customers for small variations (ie, less than 5%)** between forecast and actual water sales. However, for larger variations we consider that applying a demand volatility adjustment mechanism ensures that prices are cost-reflective over the medium term. **If actual consumption is much higher or much lower than forecast, this could result in customers paying too much or, conversely, affect the financeability of the utility**<sup>4</sup> (emphasis added).*

WaterNSW wholeheartedly agrees with IPART's assessment.

In the absence of IPART introducing a revenue cap for WaterNSW's rural valleys, we urge IPART to adopt a DVAM for the 2026 determination as outlined above for Hunter Water.

WaterNSW is one of two water infrastructure businesses regulated by IPART without a DVAM or equivalent to address volume risk. This is made more problematic given the potentially larger volumes at risk compared to our industry peers. While WaterNSW maintains that a revenue cap is the most effective approach to manage volume risk that shares the risks equitably with customers – and we will continue to explore its introduction for the subsequent review – we consider that a DVAM is a tried and tested mechanism commonly implemented by IPART that can be seamlessly introduced for the 2026 determination.

## 2.5. Demand forecasts

As required under the IPART Act, IPART considers levels of forecast water usage when setting prices. IPART uses forecasts for water entitlements and usage when calculating maximum prices.

As noted by IPART, water entitlements specify the maximum volume of water a licence holder is allowed to extract from a designated water source. The total number of entitlements in each water source is capped by legislation; entitlements can only be created or rescinded in limited circumstances. Therefore, the total volume of water entitlements in each valley tend to remain stable through time.

In IPART's 2025 determination of rural bulk water prices, IPART maintained the approach of using a 20-year rolling historical average to forecast water usage. There are limitations in the use of the 20-year rolling average, including that changes in circumstances (e.g. weather, crop choice, water sharing plans) may result in persistent deviations in water usage from the 20-year average.

IPART notes that improvements can be made to forecasting "long-term" water usage.

In 2024, WaterNSW undertook preliminary analysis to assess potentially more sophisticated approaches to forecasting water usage, including the development of a forecasting model that reflects the key drivers of water usage (including the impacts of climate change). Initial analysis was undertaken for Murrumbidgee, Murray, Macquarie, Lachlan, Namoi and Peel valleys.

While initial results were encouraging, key takeaways from the analysis include:

- There is likely to be a relatively higher degree of confidence of forecasting water usage over a 1-year period, but rapidly declining confidence of forecast usage each successive year. This is due to several factors, including a shorter term forecast can incorporate dam storage levels and projected inflows / outflows, with forecasts longer than 12 months less reliable due to climate uncertainty and customer behaviour (ie the choices customers make given the range of information they have available at the time they're making business decisions).
- The accuracy of the forecasts is heavily influenced by the timing of each review and the corresponding selection of each long-term average.

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<sup>4</sup> IPART's Hunter Water Issues Paper 2019(a). page 74.

- Climate changes, crop changes, agri-market and water-market movements, water policy and water sharing plans can change over time, thereby calling into question the use of longer-term forecasts of water usage if used for pricing purposes.

WaterNSW's proposal to adopt a revenue cap in each valley was in part formed on the basis that resolving any over- or under-recovery of revenues could be best undertaken on an annual basis whereby annual price changes incorporate 1-year forecasts that are likely to be reasonably accurate. This is our preferred approach to forecasting water usage and is consistent with the approach to pricing in other sectors (e.g. electricity distribution networks).

We are open to revisiting whether the significant time, resources and data required to develop and maintain a more sophisticated forecasting approach that takes climate impacts into consideration for water usage for pricing purposes (as opposed to forecasting for supply considerations) would yield materially more accurate forecasts. This analysis will not be available for the 2026 determination.

WaterNSW looks forward to working with IPART in the leadup to the subsequent determination to assess whether there is merit (and funding) to pursue the development of more accurate usage forecast for pricing purposes.

## 2.6. Weighted Average Cost of Capital

In the Discussion Paper, IPART acknowledges that the WACC is an important component of the regulatory framework and IPART promotes settings so that prices only recover a reasonable rate of return that would be earned by a similar firm operating in a competitive environment. For the 2025 determination, IPART did not do this and we welcome IPART's stated view that the WACC will be updated for the 2026 determination.

IPART summarises its approach to the WACC for the 2026 determination as follows:

*IPART's 2021 Determination was based on WACC estimates of 1.8% for WaterNSW's MDB valleys and 3.0% for WaterNSW's coastal valleys. In our 2021 price review, the WACC for WaterNSW's MDB valleys had been calculated according to the Australian Competition and Consumer Commission's (ACCC) water charge infrastructure rules.*

*In December 2023 WaterNSW wrote to IPART seeking clarification of how we would implement our WACC methodology for their next price review. **In May 2024, IPART wrote to WaterNSW agreeing to a 10-year transition to trailing average for the long-term cost of debt and a 5-year transition for the current cost of debt for the MDB valleys** (emphasis added).*

*In September 2024 when IPART received WaterNSW's pricing proposal it became clear that the transitional arrangements would lead to a WACC for the MDB valleys that exceeds the WACC for coastal valleys. Since the 2021 determinations interest rates had increased and this was reflected in the proposed WACC of 3.6% for MDB valleys (based on the transition to trailing average cost of debt approach) and 3.1% for coastal valleys (based on IPART's standard WACC method).<sup>5</sup>*

It is clear from the passage above that IPART's consideration of moving away from its agreement to apply a WACC transition is driven by considerations other than what is the appropriate WACC for the MDB valleys. That is, using the rationale that the WACC for the MDB valleys would be higher than the WACC for the Coastal valleys if a transition to the cost of debt is applied, and that this should somehow suggest that the agreed WACC for the MDB valleys should then not be applied, is clearly not supported.

WaterNSW notes that it is common practice in past decisions that the WACCs for the MDB and Coastal valleys did not align.

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<sup>5</sup> IPART *WaterNSW Rural Valleys pricing review 2025-26 – Discussion Paper, October 2025*. Page 17.

WaterNSW strongly urges IPART to honour its past support to apply a 10-year transition to the trailing average for the long-term cost of debt and a 5-year transition for the current cost of debt for the MDB valleys.

We note that the application of the transitions was the result of considerable analysis and discussion with IPART in the leadup to the 2025 determination. It represents regulatory best practice, and is consistent with IPART's WACC methodology to transition from the ACCC's 'on the day' approach to calculating the cost of debt to IPART's trailing average methodology.

WaterNSW provides a summary below of our analysis underpinning the need to adopt transitions to the current and long-term costs of debt.

## Background

WaterNSW received correspondence from IPART in May 2024 and March 2025 that confirmed we should be using IPART's Standard WACC methodology with a cost of debt transition for calculating the return on capital for Rural Valleys.

IPART's advice has informed our debt refinancing over the last 12 months. A substantial change to this approach will prevent WaterNSW from being able to naturally "hedge" our debt portfolio to IPART's methodology – a common approach used by utility companies to manage financing (interest rate) risk.

That IPART did not update prices for the 2025 one-year determination based on its prior advice and implicitly **maintains the historically low 1.8% post-tax real WACC embedded in current MDB prices** that cannot be practically replicated. Current interest rates are materially higher than market interest rates available when debt was refinanced at the end of the prior determination period under the previous "on the day" approach to the cost of debt

With nominal interest costs of around 2.8% as a component of prices from the 2021 determination, while current nominal interest rates are around 6.3%<sup>6</sup>, our financeability is significantly compromised if prices do not reflect current market conditions. WaterNSW has consistently maintained our position in our discussions with, and submissions to, IPART that Rural Valley prices should have been uplifted to reflect the WACC based on IPART's previous guidance that includes a transition for the current and historic cost of debt.

As part of our 30 September 2024 pricing proposal, WaterNSW engaged Frontier Economics to provide an estimate of the likely WACC for the MDB valleys that would enable a transition to IPART's standard WACC methodology and enable WaterNSW to align its debt portfolio to the IPART methodology.

The advice confirmed that for the MDB valleys **the only practical approach to match our debt portfolio to the IPART methodology as it moves from an "on the day" approach to IPART's trailing averages approach to the cost of debt is to apply a 10-year transition to the trailing average for the long-term cost of debt (to align to IPART's 10 year trailing average) and a 5-year transition for the current cost of debt (to align to the length of the determination period recommended in our Pricing Proposal).**

The post-tax real WACC for the MDB Valleys was forecast to increase to 4.2% in our pricing proposal when a transition for both the 10-year (long-term) and 5-year (current) trailing averages for the cost of debt consistent with IPART's guidance as illustrated below.

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<sup>6</sup> Based on IPART's published August 2025 biannual WACC update spreadsheet, assuming a nominal pre-tax cost of debt in the water sector and a 4-year determination period.

**Table 2 – Updated estimate of WACC for Rural Valleys – 5 year length**

Parameter	Current	Long term	Midpoint
Risk-free rate	4.50%	4.50%	
Inflation	2.60%	2.60%	
Debt margin	1.20%	1.20%	
Market risk premium	6.20%	6.00%	
Cost of equity (post-tax nominal)	8.84%	8.70%	8.77%
Cost of equity (post-tax real)	6.08%	5.95%	6.01%
Cost of debt (pre-tax nominal)	5.70%	5.70%	5.70%
Cost of debt (pre-tax real)	3.02%	3.02%	3.02%
Post-tax real WACC	4.25%	4.19%	<b>4.20%</b>

We proposed that Rural Valley prices were uplifted to reflect a post-tax real **WACC of 4.2%** based on IPART’s previous guidance that includes a transition for the current and historic cost of debt.

### 2.6.1. Summary of our views on WACC

There are compelling reasons for IPART to continue to apply their established framework to calculate the rate of return on capital. IPART’s last major review of the allowed return on capital resulted in the *Final Report published in February 2018*.<sup>7</sup>

Two key outcomes of that review are:

- **Estimating a WACC that best reflects efficient financing costs**

IPART’s conclusion that the central objective of its WACC estimation task is to produce an estimate that is as accurate as possible - that its WACC estimate should best reflect the efficient financing costs of the regulated entity.<sup>8</sup>

In this regard, IPART concluded that setting the allowed return on capital above or below the efficient financing costs would be inconsistent with the matters that IPART is required to consider under section 15 of the IPART Act.

- **The importance of regulatory stability and predictability**

IPART’s recognition of the importance of regulatory certainty and stability - the importance of adopting an approach to WACC estimation that is stable and predictable over time.

In this regard, IPART drew particular attention to the very material weighting that credit rating agencies place on regulatory stability and predictability within the credit rating process - and the high score that had been applied to the IPART framework.

<sup>7</sup> <https://www.ipart.nsw.gov.au/Home/Industries/Special-Reviews/Reviews/WACC/WACC-Methodology-2017/20-Feb-2018-Final-Report/Final-Report-Review-of-our-WACC-method-February-2018>.

<sup>8</sup> IPART, February 2018, Review of our WACC method, p. 13.

Contrary to the above, IPART determined a new approach for setting allowed revenues for the 2025 determination whereby:

- The length of the 2025 determination was set at one year.
- There would be no updated calculation of the allowed return on capital and no building block calculation of allowed revenues, even though the updated WACC has already been performed as part of IPART's biannual WACC updating process.
- Any difference between the allowed return on capital under this new approach and IPART's best estimate of the efficient financing costs (i.e., using IPART's usual approach for estimating WACC) would remain a permanent difference to be borne by equity holders in the absence of a true-up mechanism.
- No return on debt and no transition(s) would be applied for Rural Valleys, in contrast to (a) written assurances provided by IPART in May 2024 and March 2025 that such a transition would be applied and (b) WaterNSW's actual debt refinancing based on those assurances.

**WaterNSW contends that IPART should revert to its standard WACC methodology for the upcoming determinations and honour its agreement to apply the debt transitions as noted above** to estimate a WACC that best reflects efficient financing costs and recognises the importance of regulatory stability and predictability for efficient investment in water infrastructure.

**For the avoidance of doubt, the WACC for the 2026 determination period should be based on a continuation of the WACC transitions to IPART's trailing averages that commenced this year. That is, the WACC to be applied should be based on the second year for both the 10-year transition to the trailing average for the long-term cost of debt and a 5-year transition for the current cost of debt that commenced in 2025-26.**

Annual changes to the cost of debt over the 2026 determination period, including for the effects of the transitions, would be trueed-up using IPART's usual method at the subsequent review.

A related matter is the tenor of the debt assumed if IPART adopts transitions to the long-term and current costs of debt trailing averages. A long-term debt transition of 10 years would align to IPART's standard long-term trailing average of 10 years. WaterNSW has adopted this assumption for the 50% of the cost of debt allowance for our refinancing debt issuances over the last 12 months and expect to continue to apply this assumption when we go to market for the next tranches of debt in early 2026.

The current cost of debt tenor is more problematic, as is assumed to be linked to the length of the regulatory period as per IPART's standard WACC methodology. Early visibility of the length of the 2026 determination period is important to ensure our debt transition for the 50% of the current cost of debt aligns to IPART's assumption in order for appropriate matching to occur. In our debt issuances in 2025, WaterNSW assumed a 5-year length of determination period. Combined with a 1-year 2025 determination period, a four-year tenor for the 2026 determination would help minimise any misalignment between our debt portfolio and IPART's debt allowances.

In summary, by IPART not following its own guidelines for determining the WACC it has, for Rural Valleys, locked in historically low interest rates (implicitly based on 2021 rates for MDB valleys) for up to the next four years. This results in WaterNSW being unable to fully fund our interest charges from the 2025 determination period.

### **2.6.2. WaterNSW's financial viability is under serious threat**

The outcomes from the 2025 determination, including the setting of a non-commercial WACC, has serious implications for all stakeholders, including customers, communities, WaterNSW, other water sector participants, and the NSW Government.

The implications on WaterNSW's debt management strategy, aimed at managing financing risk by aligning its borrowing with IPART's WACC guidelines is a significant concern. An extract from the WaterNSW policy is provided below:

*WaterNSW is to target a Risk Neutral Position ("Benchmark") in structuring its debt portfolio and undertaking new borrowings, aligned to the Regulators' cost-of-debt methodologies.*

*To the extent that the WaterNSW debt portfolio ("Portfolio") can be structured to replicate the Benchmark, this will result in WaterNSW's debt costs closely mirroring the Regulators' cost of debt allowances, and financial risks being naturally hedged.*

*For example, the WaterNSW debt portfolio Benchmark may be comprised of:*

*A share weighted in alignment to the Greater Sydney RAB share of total WaterNSW RAB, with the following characteristics:*

- *having a real rate cost which adjusts in line with actual inflation over time*
- *having a tenor horizon of up to ten years*
- *credit margin (GGF) tenor aligned to the real rate term to maturity*
- *50% of the portfolio should be repriced in line with the 10 year average of the 10 year Commonwealth bond rate (i.e. 5% re-pricing or maturing per annum) – i.e. in line with IPART's 10-year historic trailing average approach.*
- *50% of the portfolio should be repriced in line with the 40 business day average of the 10 year Commonwealth bond rate at IPART's advised observation period, with a trailing average profile aligned to the length of the regulatory period (e.g. a five year determination would result in a five-year trailing average with 10.0% re-pricing or maturing per annum) – i.e. IPART's current cost of debt approach.*

*A share weighted in alignment to the Rural Valleys RAB share of total WaterNSW RAB, with the following characteristics:*

- *having a real rate cost which adjusts in line with actual inflation over time.*
- *having a tenor horizon of up to 10 years.*
- *credit margin (GGF) tenor aligned to the real rate term to maturity*
- *For Regulatory Determinations commencing after 30 June 2025 (subject to transitional arrangements):*
  - *50% of the portfolio should be repriced in line with the 10 year average of the 10 year Commonwealth bond rate (i.e. 5% re-pricing or maturing per annum) – i.e. in line with IPART's ten-year historic trailing average approach.*
  - *50% of the portfolio should be repriced in line with the 40 business day average of the 10 year Commonwealth bond rate at IPART's advised observation period, with a trailing average profile aligned to the length of the regulatory period (e.g. a five year determination would result in a five-year trailing average with 10.0% re-pricing or maturing per annum) – i.e. IPART's current cost of debt approach.*

*The Benchmark will change over time depending on the relative weightings of the Greater Sydney and Rural Valley RABs in relation to the total WaterNSW RAB.*

In the absence of IPART applying its WACC guidelines and its previous written support that WaterNSW transition to a trailing average for MDB valleys, WaterNSW is unable to manage its debt portfolio so as to achieve a risk neutral position with respect to the IPART allowed cost of debt.

By preventing WaterNSW from structuring its debt portfolio maturity to replicate the regulatory "allowed" cost of debt, IPART's position would introduce additional financial risk into WaterNSW's management of its

debt portfolio. The Discussion Paper provides little guidance as to how IPART will calculate the WACC going forward or whether a mechanism will be provided to compensate WaterNSW for under-recovered funding costs (i.e. regulatory true-up of the cost of debt).

It is critical that IPART provide this guidance in its 2026 determination. WaterNSW cannot manage interest rate and debt duration risk without clear guidance from IPART as to how it plans to address the financial risk this creates for WaterNSW and the unfunded WACC costs.

We strongly recommend that IPART revert to following its WACC guidelines, including their previous written support for WaterNSW to transition to a trailing average for the cost of debt for the MDB valleys.

IPART's financeability test, as discussed below, understates the extent of the financial stress on WaterNSW financial position.

## 2.7. Pricing structures

In its Discussion Paper, IPART seeks comment on several pricing related matters, including:

- Fixed to variable ratios
- High security premium
- Regional-based pricing
- Irrigation Corporation and Districts (ICD) rebates
- MDBA and BRC charges

IPART has also asked stakeholders "what do you consider the most important issues relating to WaterNSW's rural pricing structures?" (Question 13) and "Are any of these changes to pricing structures feasible within the timeframe of this review and what are the likely impacts?" (Question 14).

WaterNSW's comments are provided below.

### 2.7.1. Fixed to variable ratios

IPART's Discussion Paper stated that WaterNSW planned to maintain the current two-part pricing structure and the existing fixed proportion of prices at current levels for most valleys and customers, with two exceptions:

- Lachlan valley to move to 80% fixed tariffs (currently 40% fixed)
- Licensed Environmental Water (LEW) holders to move to a 100% fixed tariff (currently 40% fixed in most valleys).

IPART states that for Lachlan valley "submissions we received in our 2024-25 review did not support this or provide compelling evidence for this change". WaterNSW formed our position to increase the fixed charges in one valley based on discussions with Lachlan valley representatives, and we encourage Lachlan valley customers to participate in IPART's review on this matter.

We seek IPART's guidance on what would constitute "compelling evidence" such changes in recognition that unanimity is unlikely across a varied customer base.

IPART's noted in the Discussion Paper that the "Commonwealth Environmental Water Holder (CEWH) provided feedback that it could see the value in moving to 100% fixed prices for its own planning and budgeting purposes, but expressed concern about not all customers having the option of a one-part tariff". WaterNSW is aware of those concerns and sought to address those during stakeholder consultation and proposal development as set out below.

During the development of our pricing proposal, WaterNSW held several discussions with larger customers about the option of moving to 100% fixed charges. To address any concerns that CEWH or IPART may have about "not all customers having the option of a one-part tariff", WaterNSW will endeavour to make a one-part tariff available for any customer that is interested in this move, subject to addressing any system and billing constraints in its implementation. On this basis, we encourage IPART to introduce a one-part tariff for LEW holders in the 2026 determination.

WaterNSW also notes that our pursuit of a fully fixed price for LEW holders is not inconsistent with previous IPART guidance. IPART previously explored the option of moving to a 90:10 fixed to variable tariff structure for specified licence holders that meet a set of criteria:

*The purpose of retaining the current tariff structure for State Water but with specified licence holders under a 90:10 tariff structure provides more revenue certainty for State Water. The advantage of this option over option 3 [choice of high (90:10) or low (40:60) fixed charges for customers] is that it is administratively more simple, as it is limited to specified licence holders, and there is less scope for arbitrage...*

*We recommend State Water to **explore a higher fixed to variable tariff structure (90:10) in the first instance with the Commonwealth Environmental Water Holder**, before submitting the proposal to the ACCC for the 2014 price determination. **We also recommend State Water to explore extending the 90:10 fixed to variable tariff structure to other specified customers in time** (emphasis added).<sup>9</sup>*

WaterNSW's proposed change to higher fixed charges for LEW holders is consistent with IPART's previous advice.

WaterNSW also wishes to point out that our proposal to keep the fixed proportion of charges at current levels (noting the two exceptions above) was the outcome of a more holistic approach to managing volume risk. **Our primary position is that WaterNSW's current rural valley tariff structures do not align to our predominantly fixed cost structure, leading to significant volume risk.**

That is, our costs do not vary materially with changes in customers' water usage. This results in pricing volatility for customers between reviews and revenue volatility for WaterNSW resulting in the real risk that we are not able to recover our efficient costs where actual sales differ from regulatory assumptions. Neither of these outcomes is in the long-term interests of customers. For instance:

- WaterNSW costs that do not vary with water usage include water delivery and operational costs, asset management costs, dam safety compliance costs and water infrastructure funding costs.
- WaterNSW costs that do vary with water usage only include certain contractor and consultancy costs and certain water quality laboratory costs, chemicals, electricity costs for pumping, maintenance contractors, water operations planning and delivery costs.

Our analysis suggests that approximately 95% of our costs are fixed, while only approximately 5% of our costs vary with customer water usage. In other words, our costs and the revenue requirement determined by IPART do not change materially with the amount of water delivered to customers.

As our tariff structure in many rural valleys has a much lower fixed pricing structure (40%), this leads to potentially significant pricing and revenue volatility when actual water usage differs from the forecasts used by IPART to set prices in the determination (such as, the 20-year rolling average of water sales in each valley).

This misalignment, combined with no mechanism to address variations between forecast and actual water usage under the current maximum price caps, can lead to significant pricing volatility for customers between regulatory periods and the risk that WaterNSW is not able to recover its efficient costs.

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<sup>9</sup> IPART *Review of Rural Water Charging Systems – Draft Determination, July 2012*. Page 8.

In our September pricing proposal, WaterNSW provided the following illustration that summarises the tariff structure options we have considered and engaged on with our customers.

Figure 34 – Tariff structure options we have considered and engaged on with our customers

<p><b>Options for a future price structure</b></p>	<p><b>Cost reflective tariff</b> Charging customers the same way our costs come in. Noting at WaterNSW we have higher fixed charges, we would look for higher fixed charges with customers.</p>	<p><b>Current fixed:variable charges</b> What we have in place currently</p>	<p><b>Creating customer choice</b> Can we put in place a different approach to different customers' needs?</p>
<p><b>Form of regulation</b></p>	<p><b>Price Cap</b></p>	<p><b>Current Price Cap</b></p>	<p><b>Revenue Cap</b></p>
<p><b>Where do these options differ?</b></p>	<ul style="list-style-type: none"> <li>Valley by valley pricing – each valley is individual</li> <li>Cost reflective – our prices must reflect the costs to run that valley</li> <li><b>We have</b> to change the fixed proportion of charges to better align with our fixed cost structure. Our initial suggestion - increase all valleys to a minimum of 70% in the first instance</li> <li>This can create high bill volatility for some customers in the short-term due to the transition</li> <li>We can have bill certainty then after we start</li> <li>Low risk of WaterNSW taking more money than IPART has said it should</li> <li>Because our revenue reflects our costs we don't need an extra allowance to deal with changing water volumes.</li> </ul>	<ul style="list-style-type: none"> <li>Valley by valley pricing</li> <li>However, this is <b>not</b> cost reflective</li> <li>It creates a volatile cash flow for WaterNSW and some customers have volatile water bills</li> <li>It requires us to include extra revenue to accommodate these changing water volumes</li> <li>As result, there is a risk of WaterNSW over or under recovering the IPART determined revenue to manage the system</li> </ul>	<ul style="list-style-type: none"> <li>Valley by valley pricing</li> <li>We can be flexible with the fixed: variable portions of the bill</li> <li><b>We don't have</b> to change the fixed proportion of charges</li> <li>Creates greater customer control over their cash flow - they know with greater confidence their total bill each year</li> <li>Ensures we recover the IPART allowed revenues - no more / no less - by adjusting prices up or down to keep us on track</li> <li>In the future this can be a more sophisticated offer based on customer type (similar to energy)</li> </ul>
<p><b>Reliance on the accuracy of volume forecasts</b></p>	<p>Low</p>	<p>High</p>	<p>Low</p>

WaterNSW has been clear in its discussions with stakeholders that of the available options for managing volume risk, customers were the least supportive of fixed charge increases and the impacts this might have on their business operations, particularly during times of low water availability. This contributed significantly to WaterNSW's proposal for a revenue cap as the form of control, as discussed later in this submission.

While some of our customers told us they are in a better position to manage their water usage than we are, there remains an inherent resource (water) availability challenge that extends beyond any party's ability to effectively control or mitigate. The extent of this resource availability challenge is relatively unique to bulk water providers relative to other regulated utilities where the focus is on the efficient delivery and usage patterns by customers of the resource (for example, electricity) rather than its outright scarcity.

WaterNSW considers that a **price cap has many positive qualities, and we would support its continued use if the fixed tariff structures more closely aligned with our underlying cost structures and or if IPART provided a mechanism to address volume variations (i.e. a Demand Volatility Adjustment Mechanism (DVAM) as discussed in Section 2.4).**

Our customers were generally convinced with the logic of pursuing higher fixed charges in order to be a financially sustainable business. However, some were not supportive of the step change in fixed charges under a price cap, particularly in times of drought and low water usage that would be associated with a higher fixed pricing structure.

Given the available options to manage volume risk, WaterNSW considered that a revenue cap with a side constraint provided a more reasonable balance than higher fixed charges in minimising pricing volatility, addressing customers' business considerations and providing a mechanism that would provide WaterNSW with a reasonable opportunity to recover our efficient costs.

## Fixed to variable ratios in other jurisdictions

With regard to the fixed to variable tariff structure ratio, WaterNSW is in an unusual situation with its higher variable tariff ratio imposed by the Regulator relative to its peers. This was pointed out by PricewaterhouseCoopers in its 2010 consultancy report to the Queensland Competition Authority:

*With the exception of State Water, all water businesses apply a higher fixed charge ratio or one which is 50% fixed. There are instances where a full fixed tariff structure applies (i.e. some districts within Southern Rural Water, and charges for infrastructure assets in the Harvey Water irrigation area)<sup>10</sup>*

Indeed, this situation was acknowledged by IPART in its 2012 discussion paper on Rural Water Charging (**emphasis added**):

*In Victoria, Southern Rural Water (SRW) estimated that its costs are approximately **90% fixed and 10% variable**, in a normal year. In 2 of 3 SRW pricing districts, all costs are recovered through a fixed charge. In the third district, costs are recovered by a 2-part tariff. This 2-part tariff recovers **approximately 80% of costs through the fixed charge** with the remainder recovered through a variable charge.*

*In Goulburn-Murray Water's (GMW) area of operations, various fixed charges apply, including:*

- \* a service fee to recover the cost of administering entitlements*
- \* an Entitlement Storage Fee (per ML water entitlement) which recovers water harvesting and storage costs in dams and weirs*
- \* an Infrastructure Access Fee (per ML/day delivery share) which recovers fixed costs of maintaining and renewing the channel system.*

*Variable charges include an Infrastructure Use Fee (per ML delivered up to annual delivery allowance) which recovers the variable costs of delivering water. This includes the costs of scheduling customers' orders and operating regulators.*

*In effect, **bulk water charges are fixed** and only distribution is variable.<sup>11</sup>*

In addition, we note that the Sunwater bill for non-irrigation customers as highlighted in our analysis in Attachment 3 of this submission highlights that the bill for non-irrigation customers is highly fixed. For Sunwater irrigation customers, we note that the QCA Rural Irrigation Price Review 2025-29 Sunwater Final Report stated that:

*In the 2020 review, we allocated 20% of direct operations and maintenance opex to the volumetric tariff component for bulk schemes and distribution systems. While we acknowledged that allocation of costs between fixed and volumetric components involved a degree of judgement, we considered this cost allocation appropriate, with a view to balancing complexity, cost and transparency. Sunwater has not proposed any change to this allocation approach for this review<sup>12</sup>*

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<sup>10</sup> [https://www.qca.org.au/wp-content/uploads/2019/05/8143\\_W-Sun-Irrig-Price-PWC-Sub-TariffStructFinal-0910-1.pdf](https://www.qca.org.au/wp-content/uploads/2019/05/8143_W-Sun-Irrig-Price-PWC-Sub-TariffStructFinal-0910-1.pdf)

<sup>11</sup> [https://www.ipart.nsw.gov.au/sites/default/files/documents/discussion\\_paper\\_-\\_review\\_of\\_rural\\_water\\_charging\\_systems\\_-\\_june\\_2012.pdf](https://www.ipart.nsw.gov.au/sites/default/files/documents/discussion_paper_-_review_of_rural_water_charging_systems_-_june_2012.pdf)

<sup>12</sup> <https://www.qca.org.au/wp-content/uploads/2025/02/final-report-sunwater.pdf>

WaterNSW analysis in prior reviews (2017-18) suggests that NSW irrigation corporations also have a preference towards levying predominately fixed charges.

For example, by analysing the revenue forecast of the Irrigation Corporations in its 2012-17 ACCC Network Service Plans, we derived that:

- Murray Irrigation appears to apply a 75:25 fixed to variable tariff structure
- Murrumbidgee Irrigation appears to apply a 80:20 fixed to variable tariff structure
- Coleambally Irrigation apply a predominately fixed charge structure, and
- Western Murray Irrigation does not levy a usage charge as long as water usage is below or equal to the access fee allowance.

The analysis above highlights that WaterNSW has a much lower fixed to variable tariff structure compared to bulk water providers in other jurisdictions. In the absence of a revenue cap or DVAM, this would likely lead to higher volume risk for WaterNSW and our customers compared to other jurisdictions.

### **2.7.2. High security premium**

A High security (HS) entitlement charge is levied on HS entitlement holders for each valley. It incorporates a premium to reflect the greater security (i.e. priority in water allocations) and reliability of water supply experienced by HS entitlement holders relative to General security (GS) entitlement holders. This premium is referred to as the HS premium.

Under IPART's current approach, the HS premium is calculated using 2 factors which aim to capture the security and reliability of water supply from holding HS over GS entitlements.

Specifically:

- the security factor is a proxy for the security in HS entitlements that stems from the differential allocation priority
- the reliability ratio accounts for the reliability in HS entitlements, especially in periods of low rainfall.

IPART last reviewed the HS premium, including its calculation and the inputs to both the security factor and the reliability ratio, in its 2017-18 review of rural bulk water services.

WaterNSW will participate in any IPART review of the High Security premium if stakeholders see this as a priority.

### **2.7.3. Regional-based pricing**

In the Discussion Paper, IPART states that WaterNSW's 30 September 2024 proposal included an alternative scenario for the purpose of assisting IPART in assessing affordability for rural customers based on a transition from valley-based to region-based charging.

Under WaterNSW's regional-based pricing scenario, each valley would pay a legacy charge for the capital expenditure it has incurred up to 30 June 2025. This legacy charge would continue until the existing assets are fully depreciated. From 1 July 2026, charging for capital and operating expenditure would shift to a regional basis.

WaterNSW grouped the existing valleys into the following 2 regions:

- Northern region comprising 7 valleys (Border, Gwydir, Namoi, Peel, Macquarie, North Coast and Hunter)

- Southern region comprising 5 valleys (Lachlan, Murray, Murrumbidgee, Lowbidgee and South Coast).

In our proposal, we presented benefits that could arise from a regional-based approach as reproduced below:

*Regional pricing is consistent with the IPART stated aim to allow the regulated utility to reprioritise expenditure within the allowance. It provides several benefits compared to valley-based pricing, including:*

- *minimising price shocks within and between valleys in the future as expenditures are allocated across a wider customer base*
- *providing WaterNSW with flexibility to operate across the region to deliver its required investment programs while still focussing on the priorities of each valley*
- *providing opportunities for improved efficiency as the regionally-based framework aligns to WaterNSW's regional structure for its maintenance and operational activities*
- *achieving other administrative improvements, including more straightforward cost allocation across valleys.*

*On balance, regional pricing is considered to be similar to valley-based pricing in terms of cost reflectivity, while providing significant benefits particularly with respect to minimising future pricing volatility within and between valleys.<sup>13</sup>*

WaterNSW maintains that there are significant benefits associated with such a move.

Importantly, in our September 2024 proposal, WaterNSW highlighted that the Rural Valleys review provided a unique opportunity to capture the benefits of moving from valley-based to regional-based pricing, as stated below:

*A regional charging structure will result in some valleys paying more and other valleys paying less than under a valley-based regime. **WaterNSW's suggests that regional pricing should only be considered for this review if combined with a 15% per year (plus inflation) price cap, ensuring no valley would be [ ] worse off over 2025-30 than had valley-based pricing continued.**<sup>14</sup>*

There are many benefits to moving to a regional-based approach to pricing as highlighted above, but there are also transitional issues to address, including identifying and quantifying the "winners and losers" from the move and setting a reasonable transition period for full implementation (a \$/ML "transitional charge" was provided to minimise any residual revenue shortfall over the next five years).

As stated above, WaterNSW only considered the move to regional-based pricing for the current review if an overall cap on prices was implemented by IPART to ensure no valley would be worse off over the five-year determination period than had valley-based pricing continued.

WaterNSW seeks guidance from IPART as to whether we should continue to pursue a regional-based approach to pricing to support IPART in setting efficient and effective tariff structures for the 2026 determination and or beyond, recognising the significant consultative and analytical challenge in engaging with customers across 12 valleys to introduce this (or any other) significant tariff reform.

IPART has indicated that while "it may not be feasible to implement this change by 1 July 2026, we are seeking views to understand if this is a priority for customers".

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<sup>13</sup> WaterNSW Bulk Water Pricing Proposal, 30 September 2024. Attachment 5, page 12.

<sup>14</sup> Ibid. Attachment 5, page 12.

#### 2.7.4. Irrigation Corporation and Districts (ICD) rebates

As outlined in the Discussion Paper, ICDs are located in the Lachlan, Murray and Murrumbidgee valleys and undertake activities including billing, metering, and monitoring for customers that are serviced within their irrigation distribution network.

IPART's past determinations have included discounts via rebates to ICDs to reflect IPART's view of WaterNSW's 'avoided costs' of not having to directly service a larger number of smaller customers. The avoided costs are calculated based on the services WaterNSW does not need to provide due to the activities of ICDs (as a per ML of entitlement cost multiplied by the number of entitlements held by the ICD). In the 2021 determination, ICD rebates totalled approximately \$1.7 million per year (\$2020-21) and averaged \$2.0 million per year in our September 2024 pricing proposal.

As stated by IPART in the 2021 determination, the discounts are paid annually to ICDs in the form of rebates, with the value of the rebates collected from other users. While the size of the rebate does not affect WaterNSW's total revenue requirement, it affects the value of bulk water charges paid by all customers.<sup>15</sup>

IPART has stated in the Discussion Paper that it expects with further analysis of efficient costs and allocations from the expenditure review, it will have sufficient information to assess whether current discounts match or reflect avoided costs.

WaterNSW will be guided by IPART in this assessment.

#### 2.7.5. MDBA and BRC charges

In its 2024-25 review of rural bulk water prices, IPART kept MDBA and BRC charges largely unchanged as IPART felt it did not have sufficient information at that time to determine the prudent and efficient costs of the MDBA and BRC.

WaterNSW's original proposal included pass through charge components to allow for the recovery of costs relating to the bulk water activities of the Murray Darling Basin Authority (MDBA) and Dumaresq-Barwon Border Rivers Commission (BRC).

In its Information Paper (page 52), IPART states the following with respect to bulk water charges for the MDBA and BRC:

*... MDBA & BRC prices are increasing by only CPI.*

As outlined in Attachment 16 of our original proposal, NSW's contribution to the MDBA is characterised as operating expenditure, therefore there is no forecast MDBA capital expenditure. The MDBA costs are treated by NSW as recurrent operational expenditure.

In the 2021 determination, IPART 'looked through' the actual contributions paid to MDBA and set a building block cost allowance based on a conceptual assessment of the 'capital' and 'operating' costs used to supply MDBA services. IPART's decision at that time was to set a building block capital cost allowance to incorporate MDBA capital costs in Bulk Water prices in the next determination period.

WaterNSW considers that for the 2026 determination, IPART should incorporate updated MDBA and BRC cost forecasts and not apply "CPI only" increases as per the 2025 determination.

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<sup>15</sup> IPART 2021 Final Rural Valleys bulk water determination, October 2021. Page 81.

## 2.8. Operating expenditure and base costs

In the Discussion Paper, IPART indicated that in its 2024–25 review, WaterNSW's operating costs increased faster than IPART expected, and by more than expenditure allowances in IPART's 2017 and 2021 determinations. IPART states that WaterNSW's operating base costs per unit of water entitlement are growing.

While IPART acknowledges there are differences between the other water businesses it regulates and IPART's approach to water price regulation does consider each unique water business in a fit for purpose way. However, IPART has indicated it has observed different trends in operating expenditure and regulatory asset base than in other water businesses it regulates. IPART therefore has indicated that it will look more closely at base cost expenditure as part of the 2026 determination.

### 2.8.1. Concerns over IPART's use of benchmarking

IPART provides some limited benchmarking that it suggests supports the proposition that WaterNSW's costs are increasing at a rate higher than other water utilities. WaterNSW challenges the robustness of IPART's analysis and suggests it should carry little weight in IPART's review.

For instance, IPART's adoption of "opex per customer" is widely (and seemingly sensibly) used for utilities that service a large / increasing number of customers (e.g. Sydney Water which is driven by domestic water use / growth). It has little relevance, however, for the provision of bulk water services in regional and rural NSW (and to irrigators / primary producers), where costs outside of our control are increasing (as they are for all NSW water utilities) but customer numbers are low with virtually no growth.

Comparing WaterNSW to other water utilities using 'opex per customer' as the metric would, not unexpectedly, suggest WaterNSW has performed worse than our peers when much of the variance is related to the low customer growth. The problem with IPART adopting this measure (which it has included in the Discussion Paper) for WaterNSW is highlighted below:

*The trend is different from Hunter Water and Sydney Water's operating expenditure per customer over the same period. While Hunter Water and Sydney Water each service populations in growing metropolitan areas, and WaterNSW services customers in rural and regional areas, with fixed entitlement, we will complete further investigation to better understand the trend we have observed in WaterNSW's operating costs for its rural bulk water business.<sup>16</sup>*

Similarly, IPART then compares opex and capex to the number of water entitlements it services (as a proxy for the number of customers it services). As noted by IPART, entitlement numbers have been flat over many years, again highlighting that using a measure where the denominator (entitlement numbers) has low growth will necessarily place WaterNSW in a negative light compared with other water utilities with much higher customer growth.

We note that using these benchmarks in the Discussion Paper provides the impression that WaterNSW's costs have been inefficient, when this is not the case and driven by other factors (i.e. high costs largely outside of our control combined with low or negative growth in customer numbers). The analysis ignores the reasons for the cost increases, which are driven by increasing regulatory compliance obligations and policy administrative burden imposed by both Government and Regulators in the context of a fixed / declining customer base dominated by irrigators and driven primarily by primary producers not domestic consumption.

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<sup>16</sup> Discussion Paper, page 16.

WaterNSW suggests a more reasonable benchmarking approach would be to compare WaterNSW to peers that provide a similar rural bulk water services.

IPART's statement that exceeding the operating expenditure allowances implies that WaterNSW is inefficient and atypical is flawed and inconsistent with regulatory practice elsewhere. For example, in Victoria, 12 of 17 water utilities determinations regulated by the Essential Services Commission (ESC) exceeded their baseline operating expenditure allowances in recent determinations, as shown below:

**Table 3 – Essential Services Commission (ESC) regulated utilities' operating expenditure**

ESC Regulatory Decision	Baseline Operating Expenditure Close to Approved Level?
GMW (2024)	Yes
GWW (2024)	No
Barwon Water (2023)	No
Central Highlands Water (2023)	No
Coliban Water (2023)	No
East Gippsland (2023)	No
Gippsland (2023)	Yes
GVW (2023)	No
GWM (2023)	No
LMW Rural (2023)	Yes
LMW Urban (2023)	No
SEW (2023)	Yes
South Gippsland (2023)	Yes
Southern Rural (2023)	No
Wannon Water (2023)	No
Westernport (2023)	No
Yarra Valley Water (2023)	No

Source: <https://www.qca.org.au/wp-content/uploads/2024/12/aither-report.pdf>

This was primarily due to cost drivers similar to those faced by WaterNSW, including regulatory compliance and ICT/cybersecurity requirements.

Examples of step changes in Victoria include:

- Barwon Water: \$3.1 million uplift for Smart Networks; \$5.3 million for cybersecurity<sup>17</sup>
- Yarra Valley Water: \$31.6 million for new regulatory obligations (including IT critical infrastructure); \$6 million for cloud technology<sup>18</sup>
- Goulburn Murray Water: \$4.05 million for IT cloud and security<sup>19</sup>

<sup>17</sup>

<https://www.esc.vic.gov.au/sites/default/files/documents/Barwon%20Water%20Review%20of%20Expenditure%20Forecasts%20FINAL%20REPORT.pdf>

<sup>18</sup>

<https://www.esc.vic.gov.au/sites/default/files/documents/Yarra%20Valley%20Water%20Fast%20Track%20Report%20FINAL%200221215.pdf>

<sup>19</sup> <https://www.esc.vic.gov.au/sites/default/files/documents/2024-water-price-review-Review-of-Goulburn-Murray-Water%27s-Expenditure-Forecasts-FTI-Consulting.pdf>

- Coliban Water: \$2.6 million for digital transformation; \$3.7 million for customer experience improvements<sup>20</sup>

Benchmarking against Victorian urban and rural utilities (and Sydney Water and Hunter Water) is particularly problematic because:

- WaterNSW operates across the entire state of NSW, which is geographically ~3.5 times larger than Victoria.
- Some individual WaterNSW valleys are larger than the entire service area of many Victorian utilities.
- WaterNSW's customer base is dominated by irrigators and primary producers, not domestic consumers, meaning cost structures differ fundamentally.

The table below compares WaterNSW's controllable operating expenditure (excluding uncontrollable items such as land tax) with selected rural utilities regulated by the ESC, as well as Sydney Water and Hunter Water, both of which are not appropriate comparators given their specific metropolitan customer base and growth profile. To provide transparency, we have included a separate row isolating new regulatory compliance (e.g. IPART Operating Licence) and land management compliance activities (previously underfunded), which account for the proposed increase in operating expenditure from FY26 onwards.

**Table 4 – Other regulated utilities' historical operating expenditure**

Controllable Opex (\$m, \$2024-25)	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	Δ% FY30-FY21
Goulburn Murray Water	76.85	78.70	79.99	75.85	75.79	76.34	77.05	77.00	77.07	77.10	0.3%
Barwon Water	108.47	121.45	114.97	117.44	118.21	119.15	119.52	118.65	115.83	115.82	7%
Coliban Water	70.36	72.91	78.12	81.59	81.00	81.31	81.35	80.88	82.21	82.71	18%
Lower Murray Water Rural	19.39	19.04	18.47	16.91	16.86	17.34	17.53	17.12	17.12	17.12	-12%
Southern Rural Water	25.05	24.73	24.54	24.65	24.39	24.13	23.88	23.63	23.38	23.13	-8%
Sydney Water	1,708.00	1,639.00	1,696.00	1,691.00	1,691.00	1,811.00	1,844.00	1,867.00	1,911.00	1,919.00	12%
Hunter Water	188.90	182.30	185.00	195.30	195.30	193.00	194.20	197.00	197.80	196.90	4%
WaterNSW Opex *	64.31	63.36	68.00	72.71	65.66	72.43	69.14	69.50	69.97	70.69	10%
WaterNSW Opex ^				0.01	0.20	5.77	9.49	11.58	12.55	13.13	

\* WaterNSW Opex: excluding land tax, new regulatory requirements (IPART Operating Licence) and land management compliance costs (previously underfunded) to make this a like-for-like comparison

^ WaterNSW new regulatory requirements and land management compliance costs

Source: ESC Building Block Models submitted by Utilities – Available on the ESC website. Sydney Water and Hunter Water figures sourced from the relevant IPART Determination Final Reports.

This comparison demonstrates that WaterNSW's operating expenditure and annual variances are broadly consistent with industry trends. IPART's suggestion that it is unclear why WaterNSW's costs are increasing is therefore misplaced. Historical variances align with patterns observed across other utilities, and the step changes from FY2024-25 will be clearly identified and provided to IPART when available in early December.

Rather than relying on simplistic per customer metrics, which are unsuitable for rural bulk water services, we recommend that IPART focus on the underlying cost drivers for the proposed increases in operating expenditure in the next period, including increasing licensing and compliance obligations, ICT requirements, among other requirements that are similar with patterns observed across utilities.

To assist IPART, WaterNSW in Attachment 3 has provided a comparison of WaterNSW bills to Sunwater bills from 2020-21 to 2024-25.<sup>21</sup> In summary:

- WaterNSW's charges are generally lower than Sunwater's
- WaterNSW's charges consists of a high portion of variable charges whereas Sunwater charges consists of a high portion of fixed charges.
- Sunwater sets the charges it levies on its non-irrigation customers, such as local government authorities and industrial users to reflect upper bound pricing which, unlike lower bound prices, means that Sunwater earns a return on and recovers the initial investment in existing assets.
- SunWater's non-irrigation charges, are set by Sunwater with the aim of achieving full-cost recovery (including a return on the initial investment).

While WaterNSW does not consider this analysis to be exhaustive, it is illustrative of the point that the choice of benchmarks (e.g. opex per customer) and peers (Sydney Water and Hunter Water) is not representative of rural bulk water services provided in NSW by WaterNSW, will lead to an incorrect conclusion of inefficiency.

## 2.8.2. Base costs have increased largely outside of our control

WaterNSW notes that costs have increased since the start of the 2021 determination period due to several factors, including the effects of floods and bushfires that diverted resources for asset repairs and necessitated increased water monitoring and operations and the global pandemic.

The extreme weather events also had an impact on our capital program due to our ability to access assets. In addition, we had to respond to a number of new regulations (i.e. Security of Critical Infrastructure Act, Privacy Act and Modern Slavery Act, Land Management, IPART's 3Cs framework and WHS obligations).

There was a need to:

- Redirect resources to improve operating licence compliance and in meeting increased customer demand for data.
- Address the COVID 19 pandemic and significant macroeconomic matters such as inflation and interest rate increases, along with wage growth.

WaterNSW provided data in our September 2024 proposal that illustrated the impact of macro-economic changes since the start of the 2021 determination on the supply costs for WaterNSW, other water utilities and our customers. For instance, at the time of our proposal<sup>22</sup>:

- **Higher interest rates** – were placing significant upward pressure on the cost of capital which affects regulated revenues, particularly for the Rural Valleys where historically low interest rates (1.8% post-tax real WACC) were locked in at the for the 2021 determination period. Nominal interest

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<sup>21</sup> Sunwater, through its 19 dams and 1951 kilometres of pipeline, stores, captures and delivers around 40 per cent of the water used commercially in Queensland to more than 5000 customers. It represents a likely benchmark peer. [About - Sunwater](#)

<sup>22</sup> Details of macroeconomic forecasts are provided in Deloitte Access Economics report titled *Macroeconomic analysis for pricing submission - WaterNSW. 31 May 2024*. Provided to IPART as Appendix 3 of our 30 September 2024 proposal.

rates have increased from around 2% to around 6%, placing significant pressure on servicing our debt.

- **Wage cost increases** – The Wage Price Index (WPI) grew 0.8% in Australia and 0.6% in NSW over the March 2024 quarter, with annual growth reaching 4.1% and 4.2%, respectively. Wage growth remained at or above 4% for three consecutive quarters, which has not been seen since the March quarter of 2009. This is important as approximately 60% of WaterNSW operating expenditure relates to labour-related costs. Competition in attracting and retaining employees places pressure on labour costs and service delivery. This also influences our supply chain costs, especially within the construction sector.
- **Construction cost increases** – Growth in the output of the construction industries placed considerable upward pressure on our costs in the 2021 regulatory period. Price pressures in construction industry outputs continue to be driven by labour shortages in an environment with high industry demand. Recent increases in output prices have largely been driven by demand in the non-residential market as the infrastructure pipeline remains strong.
- **Higher petrol and diesel costs** – These represent some of the highest increases on record. Given our service area and the distance we travel between our assets every month – the equivalent of the distance from the earth to the moon and back– higher fuel prices place upward pressure on our costs.
- **Other costs** – Many other input costs have risen above inflation, including electricity, insurance, land tax, chemicals, engineering design and consultancy costs, software licence renewals, cloud and data consumption costs placing significant upward pressure on our costs.

We also outlined in our proposal that legislative, policy and regulatory changes have placed upward pressure on our costs. This includes:

- **Legislative changes** (for example, Commonwealth Security of Critical Infrastructure Act requirements, cyber security requirements, modern slavery, ESG reporting and NSW Dams Safety Act and Regulation compliance obligations).
- **Policy changes** (for example non-urban metering policy, floodplain harvesting policy and climate change plans and reporting).
- **Regulatory changes** (for example, data sharing agreements with DCCEEW and NRAR and increasing obligations arising from water sharing plans). Operating Licence changes are also expected to result in higher capital and operating expenditures in the Rural Valleys.

The technology landscape has evolved significantly since the start of the 2021 determination, with a continued shift from on premise software and storage (capital expenditure) to cloud based subscription services (operational expenditure). This mirrors the global trend towards cloud computing, with over 85% of organisations taking a cloud first strategy to meet increased customer and community expectations for near real time data availability.

The growing cyber risk and threat landscape has necessitated increased investments in cybersecurity for threat monitoring, incident response, and compliance, especially for critical infrastructure organisations under the SOCI Act. Consequently, our operating costs have risen substantially.

The above examples are not exhaustive. For instance, we received no additional allowance to implement IPART's 3Cs framework, with associated (unfunded) costs in the millions of dollars for engagement and other regulatory submission preparation costs to meet IPART's heightened expectations. We have worked hard to find cost efficiencies within our revenue allowances to meet these costs.

**We question whether the high cost of meeting the increased requirements of the 3Cs framework has been value for money for customers. We look forward to a thorough review by IPART of the framework for “lessons learnt” prior to the commencement of preparations for the next round of reviews.**

WaterNSW is working with IPART and its consultant, EY, on the assessment of the efficiency of our base costs, which will form an element key of IPART’s review.

We note that, while we were not required to submit a new pricing proposal for the 2026 determination, we have been subject to a detailed Information Request from IPART to obtain more information on our financial performance over the past 8 years and our historic headcount and FTEs at a business unit level over the past 6 years. IPART has requested this data to help inform its assessment of the efficiency of our base costs, and we have supplied information that we were able to extract from our systems.

WaterNSW will continue to work collaboratively with IPART and its consultant in the assessment of the efficiency of our base costs.

## 2.9. Capital Expenditure

IPART’s Discussion Paper does not provide a detailed discussion on capital expenditure assessment and associated findings. WaterNSW seeks IPART’s clarification on how capital expenditure will be assessed at the 2026 Determination.

The Discussion Paper sets out “key findings” from Atkins regarding the expenditure reviews undertaken following the lodgement of our pricing proposal in September 2024. WaterNSW was not provided with a “right of reply” on several findings where we believe Atkins erred and where we previously provided extensive rebuttal to IPART on the accuracy of the findings.

We reject any of Atkins’ assertions relating to the accuracy of the findings, including our approach to asset management, cost benefit analyses, the purported “poor quality information” and the usefulness of a range with an 80% variation between WaterNSW’s proposed capital expenditure and the upper and lower bound for capex and close to 40% for opex.

WaterNSW rejects many of the Atkins’ findings, including the assumptions used to establish a “lower bound” expenditure. While Atkins’ was required in its terms of reference to prepare a lower bound assessment for capital expenditure, this in no way should suggest that it is fit-for-purpose to set regulatory allowances. In its 2025 determination, IPART set an estimate of capital expenditure to enable the calculation of an indicative notional revenue requirement for one year, 2025-26 (\$45.6 million, that was \$68 million (40%) lower than our proposal). IPART states that it *decided to use Atkins’ lower bound for the indicative analysis*.<sup>23</sup>

The Discussion Paper is silent on how IPART intends on assessing capital expenditure for the 2026 determination. We would not support an approach that simply extends the adoption of the Atkins’ lower bound (as was used for the on-year 2025 determination) for the multi-year 2026 determination. Given the importance of this matter on our investment plans and the health of our assets, we request that IPART provide further guidance on how it will approach capital expenditure for this review, and how stakeholders will be engaged.

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<sup>23</sup> IPART *Review of prices for WaterNSW-Rural Valleys from 1 July 2025 – Final Report, June 2025*. Page 69.

## 2.10. Early IPART engagement review did not appear to be incorporated

We wish to highlight that in late 2023, IPART engaged FTI Consulting to undertake a review of our investment and governance systems and processes.

The objective of the system and process review was to review the appropriateness and maturity of WaterNSW's key business systems and processes. IPART indicated it would use this information as part of its assessment of WaterNSW's pricing proposal, and to make decisions on the prices that should apply from 1 July 2025.

The scope of the review was a targeted, strategic review of WaterNSW's key business systems and practices, which contribute to the development of our capital and operational planning. The review included an assessment of the robustness of systems for linking asset management decisions with current and future levels of service and performance requirements, including customer preferences, service standards and environmental outcomes.

It was understood that completing a review of the governance processes and decision making ahead of receiving the capital and operating programs would provide IPART and the expenditure review team adequate time after receiving the proposals to reach a draft decision, as this work would not be required within the review period.

Although there were a few recommendations in the final report prepared by FTI Consulting that WaterNSW already actioned, WaterNSW notes the summary findings of the FTI Consulting review:

*Based on our review, **WaterNSW's systems and processes appear to be appropriate and fit for purpose, and consistent with expectations for a utility organisation such as WaterNSW. The frameworks and processes are also generally supported by well-developed, and relevant and comprehensive guidelines and templates to ensure consistent application and usage.*** (emphasis added)

We are concerned that in suggesting the need for short-term determinations, IPART has not adequately taken into account the FTI findings regarding our asset management and governance processes, which guide our proposed expenditures. As noted above, the FTI Consulting report found that our systems and processes were of a standard and maturity expected for similarly sized organisations.

The FTI Consulting findings lend support to our contention that IPART (1) should have been able to conduct a full determination in the time available, particularly given the "fit for purpose" state of our systems and processes and (2) IPART should give less weighting to the Atkins' recommendations (in particular the "lower bound" estimates).

FTI Consulting's findings confirmed that WaterNSW's processes are at a level and maturity of what they would expect for similar firms. The Atkins' findings are at odds with the FTI Consulting findings, suggesting that IPART should exercise caution and not solely apply the Atkins' findings (i.e. the "lower bound" recommendations should hold little or no weighting).

### 3. Cost shares

In the Discussion Paper, IPART is seeking views on:

- The appropriateness of the “impactor-pays” principle
- Whether the current cost share ratios are appropriate
- Examples where it may be difficult to identify impactors, or situations where the impactor is unable or willing to pay their assigned cost share
- Alternative approaches (i.e. a “beneficiary pays” approach or IPART’s externally-adjusted pricing option as discussed in the following section).

IPART states that:

*In 2004 the Council of Australian Governments established and agreed to the National Water Initiative (NWI), committing to increase the efficiency of Australia’s water use. The NWI contained pricing principles to be applied by governments including to give effect to the principle of user-pays and achieve pricing transparency in respect of water storage and delivery in irrigation systems and cost recovery for water planning and management.*

*We use a cost sharing framework to allocate WaterNSW’s efficient operating and capital expenditure between water users and the NSW Government (on behalf of other users and the broader community).*

*Under **IPART’s existing impactor-pays approach, costs are allocated between water customers and the NSW Government (on behalf of other users such as recreational users and the broader community) on the basis that whichever party created the need for an activity (and its associated costs) to be incurred should pay.*** (emphasis added)

...

*The **impactor-pays approach is consistent with the NWI pricing principles.** The impactor-pays approach achieves the NWI pricing principles objective of best practice water pricing by:*

- *promoting economically efficient and sustainable use of water resources and water infrastructure assets*
- *giving effect to the principle of user-pays and achieving price transparency in respect of water storage and delivery in irrigation systems*
- *avoiding perverse or unintended pricing outcomes.*

*The impactor-pays approach is a core part of IPART’s current cost shares framework.<sup>24</sup>* (emphasis added)

WaterNSW has reviewed whether an impactor-pays approach for rural bulk water services is in fact consistent with the NWI and associated Pricing Principles. The NWI Pricing Principles were developed to specifically guide pricing decisions, and contain the following principles:

1. Principles for urban water tariffs
2. Principles for recovering the costs of water planning and management activities
3. Pricing principles for recycled water and stormwater use

The following discussion examines the principles for points 1 and 2 above (we do not comment on point 3).

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<sup>24</sup> IPART Discussion Paper, page 19.

### 3.3.1. Principles for urban water tariffs

The NSW Pricing Principles indicate that “user pays” should apply to urban water tariffs. Relevant extracts supporting a user pays approach for urban water are provided below:

#### 2. Principles for urban water tariffs

*Principle 1: Cost recovery*

9. **Water businesses should be moving to recover efficient costs consistent with the National Water Initiative (NWI) definition of the upper revenue bound:** *‘to avoid monopoly rents, a water business should not recover more than the operational, maintenance and administrative costs, externalities, taxes or tax equivalent regimes, provision for the cost of asset consumption and cost of capital, the latter being calculated using a Weighted Average Cost of Capital (WACC).’<sup>25</sup> (emphasis added)*

As shown above, the NWI Pricing Principles state that urban water businesses should be moving to recover efficient costs based on the ‘upper bound revenue calculation’, which aligns closely with a “user pays” approach. This approach was set out by COAG in 2004 to “give effect to the principles of user-pays and achieve pricing transparency in respect of water storage and delivery in irrigation systems ...”.

It would appear that IPART’s “user pays” approach for Greater Sydney bulk water pricing - whereby a building block framework is implemented that includes, amongst other things, a return on capital and a return of capital (consistent with the “upper bound revenue” definition above) - aligns with the NWI Pricing Principles.

### 3.3.2. Principles for water planning and management

The approach in the NWI Pricing Principles for water planning and management specifies the required adoption of an “impactor-pays” approach for the costs of these activities, with cost sharing principles including those reproduced below:

6. *Water planning and management covers a wide range of activities to meet a wide range of demands for which the associated **costs need to be allocated between water users and governments (representing the community) on the basis of cost sharing principles**, noting that these principles do not preclude the total cost of a particular activity being allocated to one party. The activities may be of an operating (recurrent) and/or capital nature.*

*Principle 4: Cost allocation*

17. **Costs are to be allocated between water users and governments using an impactor pays approach.**

*Notes:*

- i. *An **impactor** is any individual, group of individuals or organisation whose activities generate costs, or a justifiable need to incur costs. The impactor pays approach seeks to allocate costs to different individuals, groups of individuals or organisations in proportion to the contribution that each individual, group of individuals or organisation makes to creating the costs, or the need for the costs to be incurred.*<sup>26</sup>

We note that **water planning and management is the only area in the NWI or the NWI Pricing Principles where impactor-pays is specifically referenced.**

IPART’s adoption of impactor-pays for WAMC determinations - where a significant proportion of the costs for WAMC relate to water planning and management - would also seem consistent with the NWI Pricing Principles.

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<sup>25</sup> National Water Initiative Pricing Principles. [national-water-initiative-pricing-principles.docx](#)

<sup>26</sup> National Water Initiative Pricing Principles. [national-water-initiative-pricing-principles.docx](#)

### 3.3.3. Is impactor-pays for rural bulk water consistent with the NWI?

WaterNSW has concerns as to whether “impactor-pays” being applied to rural bulk water services is consistent with the NWI. This is on the basis that Rural bulk water services are neither:

- Urban, nor
- Water management and planning.

Given that the only area where the NWI Pricing Principles specify the adoption of impactor-pays is water management and planning, and that rural bulk water services are clearly not “urban”, it does not follow that impactor-pays must be applied to rural bulk water services.

The following extract from the NWI relates to “regional and rural” is reproduced from Clause 66:

*Rural and Regional*

- v) **full cost recovery for all rural surface and groundwater based systems, recognising that there will be some small community services that will never be economically viable but need to be maintained to meet social and public health obligations:**
- a) achievement of **lower bound pricing for all rural systems** in line with existing NCP commitments;
  - b) continued **movement towards upper bound pricing** for all rural systems, where practicable; and
  - c) where full cost recovery is unlikely to be achieved in the long term and a Community Service Obligation (CSO) is deemed necessary, the size of the subsidy is to be reported publicly and, where practicable, jurisdictions to consider alternative management arrangements aimed at removing the need for an ongoing CSO.

Where the lower bound pricing is defined in the NWI as:

*the level at which to be viable, a water business should recover, at least, the operational, maintenance and administrative costs, externalities, taxes or TERs (not including income tax), the interest cost on debt, dividends (if any) and make provision for future asset refurbishment/replacement. **Dividends should be set at a level that reflects commercial realities** and stimulates a competitive market outcome.<sup>27</sup>(emphasis added)*

Furthermore, we note that while IPART has previously drawn links to alignment between “impactor-pays” and “user pays”, the two concepts while arguably related, are not identical and are likely to have different implications on pricing. Interestingly, we also note the NSW Pricing Principles specifically mention “beneficiary-pays” only in relation to recycled water and stormwater use, which likely does not provide any useful guidance in the current context.

In summary, WaterNSW’s review of impactor-pays in the context of the NWI raises several unanswered questions regarding cost shares in the present context for Rural Valleys bulk water pricing. These include:

- Is impactor-pays for rural valleys consistent with the NWI Pricing Principles, as these services are neither “urban” (user pays) nor “water planning and management (impactor-pays)”?
- Is the upper or lower bound pricing more consistent with the NWI for rural bulk water prices? If a lower bound approach was adopted, does this create other funding implications for Government?
- Is a fulsome review of cost shares possible / practical for the 2026 determination?
- How would cost shares interact with IPART’s potential adoption of externality-based pricing?

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<sup>27</sup> The main differences between upper and lower bound pricing in the NWI is the inclusion of a return on capital (WACC) and return of capital (depreciation) in the former, with an annuity to fund future refurbishment / replacement included in the latter.

We acknowledge the significant challenge for IPART for this review to balance the potentially competing objectives of addressing customer affordability, not increasing costs to Government and ensuring WaterNSW is financially sustainable – objectives that are not likely to be met by small changes to the existing cost share arrangements.

## 4. Alternative approaches to addressing affordability

WaterNSW urges IPART to take a 'first principles' approach to setting input costs (including the WACC) that:

1. Starts with setting the efficient costs and revenues for providing bulk water services (i.e. are not adjusted to 'back solve' to a particular pricing outcome); then
2. Applies any cost sharing arrangements to provide a set of prices that would be charged in the absence of any affordability concerns; then
3. Sets "affordable" or "socially optimal" prices that take into account customer ability to pay and or reflect the externalities associated with the service.

It is critical that each of the above steps are undertaken in a transparent manner so that all parties have visibility of the costs of service provision and the required level of Government share, CSO and or other form of subsidy applied to take into account affordability or externalities. It is WaterNSW's contention that the approach undertaken in the 2025 determination focussed on Step 3 (affordability) while not setting an efficient revenue allowance that reflected the costs of service. We urge IPART to adopt the three-step process above.

### 4.3.1. Externality-adjusted pricing approach – the 'transport model'

WaterNSW welcomes IPART's efforts to assess whether the externality-adjusted pricing approach used for setting Opal public transport fares (also referred to as 'socially optimal fares') may be appropriate for setting Rural Valley bulk water prices.

As noted above in the discussion on the 'WAMC model' for setting prices, we anticipate that a fulsome analysis to quantifying the external costs and benefits of providing bulk water is likely to take several years. The model used for setting Opal fares (transport model) has been in place since 2008 and, as IPART acknowledges, *the development of the model has taken a number of review cycles (16 years) to develop, improve and refine the socially optimal fare model.*<sup>28</sup>

WaterNSW agrees that there is merit in assessing the suitability for the transport model to be applied to the setting of rural valley bulk water prices. Our thoughts on considering the adoption of the transport (or similar externality-adjusted pricing) model are summarised below:

- There is **merit in the further consideration of applying the Opal fare (transport) model** to rural bulk water pricing.
- However, while the transport model warrants further consideration, **its selection as the preferred model should be based on the outcome of a holistic review of the available (viable) options**, rather than adopting the model on the basis of IPART having prior experience with it in another sector. The extensive time, effort and consultation that is required before a fundamental change to price setting should occur suggests that all viable options should be assessed against a set of agreed principles and criteria before embarking down the path of one possible solution.
- Even if the transport model was selected as the preferred option, the time and resources required from IPART, customers, WaterNSW and Government to undertake a baseline assessment of the external benefits and costs of rural services will be considerable – likely well in excess of time available in the leadup to the 2026 determination. As noted by IPART, *external benefits and costs of*

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<sup>28</sup> IPART Discussion Paper. Attachment 1, page 34.

*rural water services have not typically quantified. While externalities can be identified qualitatively, there is limited evidence and agreement on how to quantify these externalities so far". This suggests that adopting the transport model in 2026 may not be practical.<sup>29</sup>*

- Finally, we agree that externally-adjusted prices are one of the more efficient forms of pricing, that take into account any external costs and benefits of the service that is priced. IPART's comment that normally *external externality-adjusted prices are close to the marginal cost of the service, adjusted for any marginal external costs or benefits that might apply. Where these externalities are large, the departure from marginal cost pricing can be significant.* Given the potential costs to customers and Government that could arise from any externalities that are "large", the implications would be expected to take considerable time to unpack.

We note that IPART has flagged how to potentially treat sunk costs in the transition to a new framework, as IPART had indicated sunk costs are not included in the pool of costs to be recovered through socially optimal prices. In assessing the matter, IPART states that:

*In the case of rural water services, we would need to consider whether and then how certain sunk costs associated with the ownership of dams and other long-lived water infrastructure would be included in estimating the externality-adjusted prices. Presently, the user share of these ownership costs is included in the notional revenue requirements (recovered over the life of the asset which for dams may be 100 years).<sup>30</sup>*

WaterNSW agrees that understanding how sunk costs are considered would be a core element of the move to an externality-adjusted pricing approach and one that would likely have significant impacts on customer prices and potential Government funding.

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<sup>29</sup> IPART Discussion Paper. Attachment 1, page 34.

<sup>30</sup> IPART Discussion Paper. Attachment 1, page 35.

## **5. We are committed to working with IPART and Government**

Despite the concerns raised throughout this response, WaterNSW has sought to constructively engage with IPART and other stakeholders in the review process and in responding to the Information Paper and draft decisions.

In engaging in the process WaterNSW is committed to collaborating in good faith with all stakeholders to deliver evidence-based outcomes that recognise all parties' obligations, needs and priorities, with a focus on the long-term interests of our customers.

We support the exploration of a more effective regulatory approach for bulk water services in NSW and particularly for regional NSW, while also viewing through the lens of what is possible and practical for the 2026 determination.

# Attachment 1 – WaterNSW responses to IPART’s questions in the Information Paper

## **Question 1 - What are the issues you consider IPART should further consider as part of this review?**

### *WaterNSW response*

The issues we consider IPART should further consider for this review are identified in this response.

## **Question 2 - How has water use and crop production changed in your local area? Does the current method of water pricing support these changes?**

### *WaterNSW response*

N/A

## **Question 3 - Have you observed improvements in the levels of rural water services provided by WaterNSW to explain the increase in its base costs over time?**

### *WaterNSW response*

N/A. This question is targeted to customers.

## ***Question 4 - What is the appropriate methodology to calculate WaterNSW’s WACC and should IPART apply a 10-year transition to the trailing average for the long-term cost of debt and a 5-year transition for the current cost of debt for the MDB valleys?***

### *WaterNSW response*

As outlined in Section 2.6 of this response, WaterNSW contends that IPART should revert to its standard WACC methodology for the upcoming determinations and honour its agreement to apply the debt transitions as noted in the Discussion Paper to estimate a WACC that best reflects efficient financing costs and recognises the importance of regulatory stability and predictability for efficient investment in water infrastructure.

For the avoidance of doubt, the WACC for the 2026 determination period should be based on a continuation of the WACC transitions to IPART’s trailing averages that commenced this year. That is, the WACC to be applied should be based on the second year for both the 10-year transition to the trailing average for the long-term cost of debt and a 5-year transition for the current cost of debt that commenced in 2025-26.

***Question 5 - Would it be appropriate to include a true-up when setting maximum prices to account for not updating the WACC in the 1-year 2025 Determination?***

*WaterNSW response*

Yes. The need for a true-up is heightened due to the unique circumstances in the 2025 determination that resulted in a “top down” determination for 2025-26 prices that departed from IPART’s usual established framework of setting efficient costs. We urge IPART to include a true-up mechanism for the 2026 determination for material matters, including the WACC and operating and capital expenditure variations.

**Question 6 - What do you consider the appropriate counterfactual to WaterNSW’s operations under the impactor pays principle?**

*WaterNSW response*

This matter is discussed further in Section 3.

**Question 7 - Do you agree with the current cost share ratios listed in Table 4.1? If not, how and why should they be amended?**

*WaterNSW response*

This matter is discussed further in Section 3.

**Question 8 - Can you provide examples where it may be difficult to identify impactors? Or of situations where an impactor is easy to identify but unable or unwilling to pay the cost share assigned to them?**

*WaterNSW response*

No comment.

**Question 9 - What do you consider the most appropriate method for allocating cost shares WaterNSW’s rural operations?**

*WaterNSW response:*

This matter is discussed further in Section 3.

We acknowledge the significant challenge for IPART for this review to balance the potentially competing objectives of addressing customer affordability, not increasing costs to Government and ensuring WaterNSW is financially sustainable – a balance that is unlikely to be met by small changes to the existing cost share arrangements.

### **Question 10. Over what determination period should we set prices?**

#### *WaterNSW response:*

While there are 'pros and cons' in deciding on the length of determination, on balance WaterNSW proposes a 4-year determination period that provides a better balance than a shorter review for cost certainty, administrative burden and the ability to effectively engage with our Rural Valley customers in the leadup to the subsequent review.

If IPART determines that a 3-year determination period is appropriate, we ask that they also consider whether to continue to require WaterNSW to follow the 3Cs framework given the shorter timeline, impact on business as usual operations and cost.

### **Question 11 - What are your views on WaterNSW's proposed revenue cap? Is further consideration of the form of price control a priority for you for the upcoming determination period?**

#### *WaterNSW response:*

This matter is discussed further in Section 2.3 (Form of control) and Section 2.4 (Introduction of a DVAM).

Contrary to IPART's assertion in the Discussion Paper, WaterNSW has undertaken extensive impact assessments across all rural valleys for the introduction of a revenue cap and or higher fixed charges in consultation with the CAGs. While our preference remains for a revenue cap (with side constraint's to manage price variability for customers), a demand volatility adjustment mechanism (DVAM) is a second best option that tracks the difference between actual and forecast revenue (volume) each year and adjusts future prices (up or down) at the subsequent review for material deviations outside a normal "deadband" (e.g. +/- 5% for Sydney Water and Hunter Water).

A DVAM shares volume risk between a utility and customers and WaterNSW observes that IPART has familiarity with the mechanism, which has been implemented by IPART under current legislation.

IPART first adopted a DVAM in 2013 and currently applies a DVAM for all but two water utilities (of which WaterNSW is one), highlighting that the mechanism is well understood and can be implemented seamlessly and transparently. The analysis and intra-period pricing volatility concerns highlighted by IPART that might arise with a revenue cap are not a material concern with a DVAM.

### **Question 12 - What factors should we take into account when assessing the most appropriate approach for forecasting water usage?**

#### *WaterNSW response:*

This matter is discussed further in Section 2.5.

### **Question 13. What do you consider the most important issues relating to WaterNSW's rural price structures?**

#### *WaterNSW response:*

This matter is discussed further in Section 2.7.1 (Fixed to variable ratios).

WaterNSW wishes to point out that our proposal to keep the fixed proportion of charges at current levels (noting the two exceptions discussed in this paper) was the outcome of a more holistic approach to managing volume risk. Our primary position is that WaterNSW's current rural valley tariff structures do not align to our predominantly fixed cost structure, leading to significant volume risk.

That is, our costs do not vary materially with changes in customers' water usage. This results in pricing volatility for customers between reviews and revenue volatility for WaterNSW resulting in the real risk that we are not able to recover our efficient costs where actual sales differ from regulatory assumptions. Neither of these outcomes is in the long-term interests of customers.

#### **Question 14 - Are any of these changes to pricing structures feasible within the timeframe of this review and what are the likely impacts?**

*WaterNSW response:*

This matter is discussed further in Section 2.7.1 (Fixed to variable ratios), Section 2.4 (Introduction of a DVAM) and Section 2.7.3 (Regional-based pricing).

#### **Question 15 - Are there any factors we should consider when setting Irrigation Corporation and Districts rebates?**

*WaterNSW response:*

This matter is discussed further in Section 2.7.4.

#### **Question 16 - What are your views on the proposed approach to assessing efficient costs of the MDBA and BRC?**

*WaterNSW response:*

This matter is discussed further in Section 2.7.5.

#### **Question 17 - What factors should IPART take into account when assessing customer capacity to pay?**

*WaterNSW response:*

WaterNSW supports IPART's further assessment of customer capacity to pay and suggests IPART explore gross margins by product type (e.g. broadacre (e.g. cotton and rice), horticulture, livestock and dairy), exposure to water charges (water charges as a share of total costs) and financial capacity to absorb cost increases. IPART should also look at wider measures of customer profitability beyond gross margin analysis (e.g. interest costs not part of the gross margin analysis but impact on profitability).

WaterNSW has undertaken preliminary analysis on customer gross margins (see Attachment 30 from our 30 September 2024 titled "NSW farming sector gross margin analysis" prepared by Deloitte Access Economics) and we look forward to assisting IPART as appropriate on this important matter moving forward.

**Attachment 2 – Revenue cap and pricing analysis**

# Welcome Border Rivers Customer Advisory Group

3 August 2023

# Why are we presenting this material



- To respond to requests from the CAGs and others for more information and education about the Regulatory Economics processes
- To build CAG members understanding of the process
- To demonstrate transparency
- To provide useful information
- To inspire some of you to participate on the working groups
- To get your initial reactions to the options

# Current IPART arrangements



- IPART determines services to be regulated
  - IPART determines the efficient costs/revenues for WaterNSW's bulk water services
    - Opex
    - Return on capital
    - Return of capital
    - Tax
    - Volatility Allowance
    - Pass through costs (MDBA and BRC costs)
  - IPART determines cost shares for services
- 1. IPART determines how the services are to be regulated (Price Cap or Revenue Cap)**
  - 2. IPART establishes the volume forecasts (currently based on 20-year average)**
- IPART Determines final prices
  - IPART determines if CSO payments are appropriate

# Pricing and revenue volatility



Our experience shows that the current approaches do not protect against potential price, bill and revenue volatility (unrelated to costs)

Volatility causes:

- price and bill shocks for customers (increases and decreases)
- revenue uncertainty for WaterNSW (not recovering the IPART determined efficient costs)

Neither is in customers' long-term interests.

# Pricing and revenue volatility



There is no 'silver bullet' to addressing this risk and requires a review of how we approach the following:

- Volume forecasting
- Price structures
- The form of regulation

So we are engaging with our customers on options.

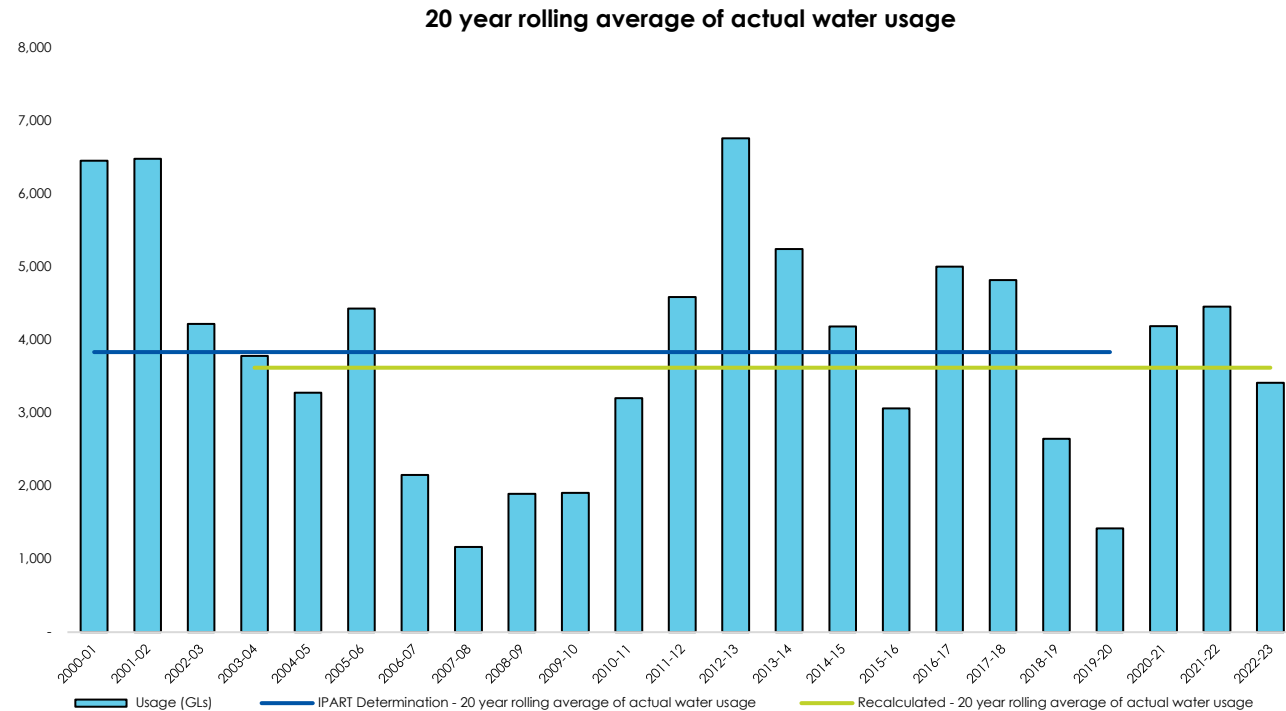
# Volume forecasting



The 20-year rolling average is an inaccurate approach to forecasting water sales

We are assessing alternatives with aim to:

- reduce pricing volatility for customers
- provide WaterNSW with an opportunity to recover our efficient costs as determined by IPART



# Price structures



- **What is the problem we are trying to solve by looking at price structures?**

*Our current tariff structure does not align to our predominantly fixed cost structure (as per the next slide)*

*(i.e. our costs do not vary much with changes in sales)*

*Resulting in pricing volatility for customers and revenue volatility for WaterNSW where actual sales differ from regulatory assumptions.*

# What drives our costs for your valley – Border Rivers



Revenue from Tariffs (\$000s, \$2020-21) - Border	Current Determination				Current Fixed %
	Cost Base-Total	Cost Base-Total %	Cost Base-Fixed	Cost Base-Fixed %	
Accounts and Billing	\$229	14.3%	\$229	99.9%	40.0%
Water Delivery and Operations	\$305	19.1%	\$297	97.1%	
Metering and Compliance	\$153	9.5%	\$153	99.9%	
Water Quality Monitoring	\$59	3.7%	\$51	85.8%	
Asset Management	\$469	29.3%	\$429	91.6%	
Dam Safety Compliance	\$116	7.2%	\$115	98.6%	
Environmental Planning and Protection	\$7	0.4%	\$7	97.9%	
Water Infrastructure Assets-Funding Costs	\$263	16.4%	\$263	100.0%	
<b>Total allowed efficient costs-Annual</b>	<b>\$1,602</b>	<b>100%</b>	<b>\$1,543</b>	<b>96.3%</b>	

What changes with water deliveries:

- Certain contractor and consultancy costs
- Certain water quality laboratory costs, chemicals, electricity for pumping, maintenance contractors, water operations planning and delivery costs.

In other words – our costs and the target revenue allowed by IPART really don't change with the amount of water delivered to customers

56% gap

# Price structures (cont.)



Potential price structure solutions fall into one of two broad categories

## ***Options in the absence of a revenue cap (current state):***

1. Our incentive is to move to a price structure that aligns with our fixed and variable cost structure. i.e. 95% fixed charges.
2. Where a transition is needed consider how to increase the fixed charge over subsequent determinations.

## ***Options if a revenue cap is introduced (possible future state)***

3. Several options to provide customer choice, including:

prices based on “type and purpose” / separate charges for Large and other customers / “sub regional” prices / menu of options, etc

# Form of regulation



## Price Cap – Current situation

- Favors price certainty
- WaterNSW may not meet its costs or may make profits above IPART's allowance
- Requires additional revenue to fund volatility risk
- Prices set in line with cost structures

## Revenue Cap – Future option

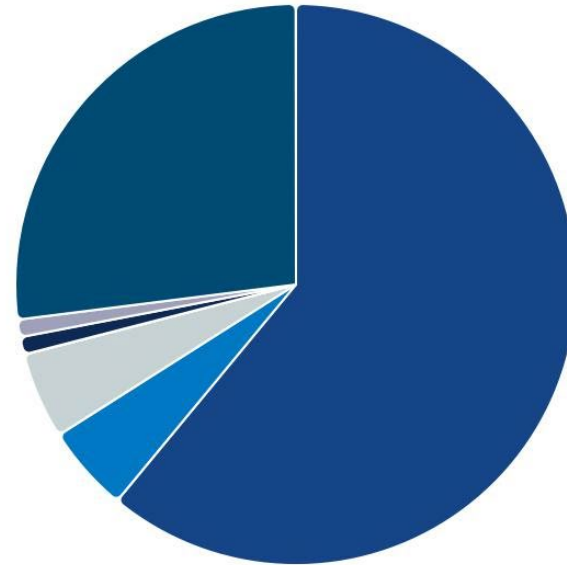
- Favors bill certainty
- WaterNSW is guaranteed to meet its costs (eventually) but cannot make additional profits
- Does not require additional revenue to fund volatility risk
- Prices can be flexible to achieve customer outcomes
- Has been used to smooth out large cost/price events

# Option Summary



Price Structure	Cost Reflective (Higher Fixed Charges)	Status Quo 40:60	Customer Choice
Design Elements	<ul style="list-style-type: none"> <li>• Valley Pricing</li> <li>• Cost Reflective</li> <li>• High bill volatility in the short-term due to transition</li> <li>• Low bill volatility after implementation</li> <li>• Low risk of over recovery of revenue</li> <li>• No risk mitigation required</li> </ul>	<ul style="list-style-type: none"> <li>• Valley Pricing</li> <li>• Not cost reflective</li> <li>• Volatile cash flows/bills</li> <li>• Require Risk Mitigation</li> <li>• High risk of over recovery of revenue</li> </ul>	<ul style="list-style-type: none"> <li>• Valley Pricing</li> <li>• Flexibility</li> <li>• Opt-in for period</li> <li>• More sophisticated offerings e.g. based on type and purpose</li> <li>• Customer control over cash flow/bills</li> </ul>
Form of Regulation	Price Cap	Price Cap	Revenue Cap
Reliance on volume forecast accuracy	Low	High	Low

# Current Cost Base for your Valley – Border Rivers



- Operating expenditure 61%
- Return of capital 5%
- Return on capital 5%
- ICD rebates 0%
- Tax allowance 0%
- Volatility allowance 1%
- UOM payback 1%
- MDBA costs 27%

Highcharts.com

# Welcome Border Rivers Customer Advisory Group

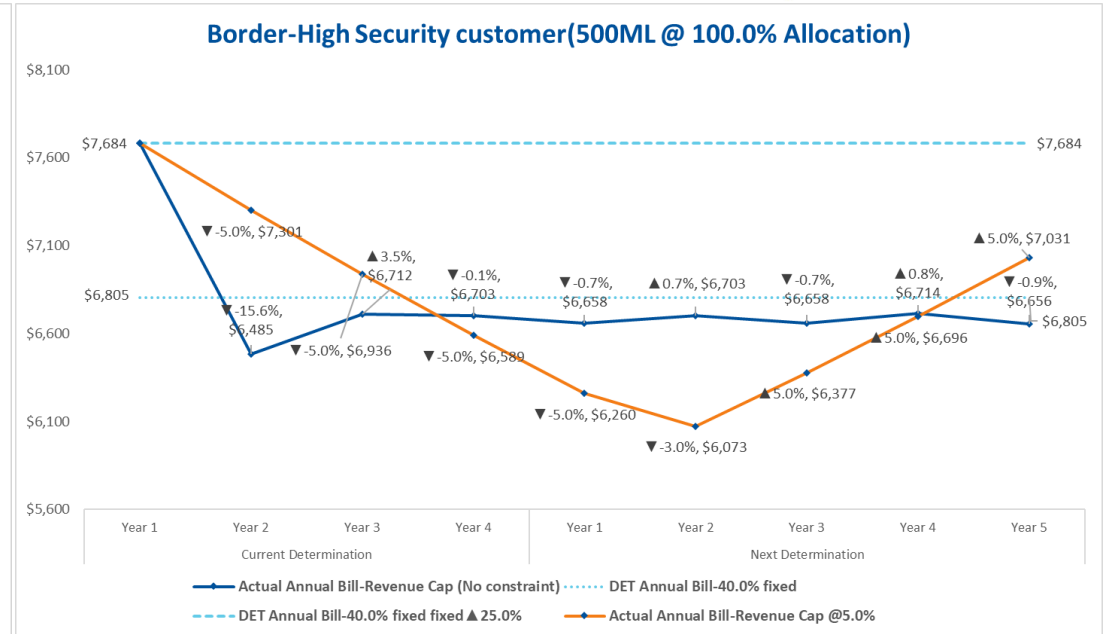
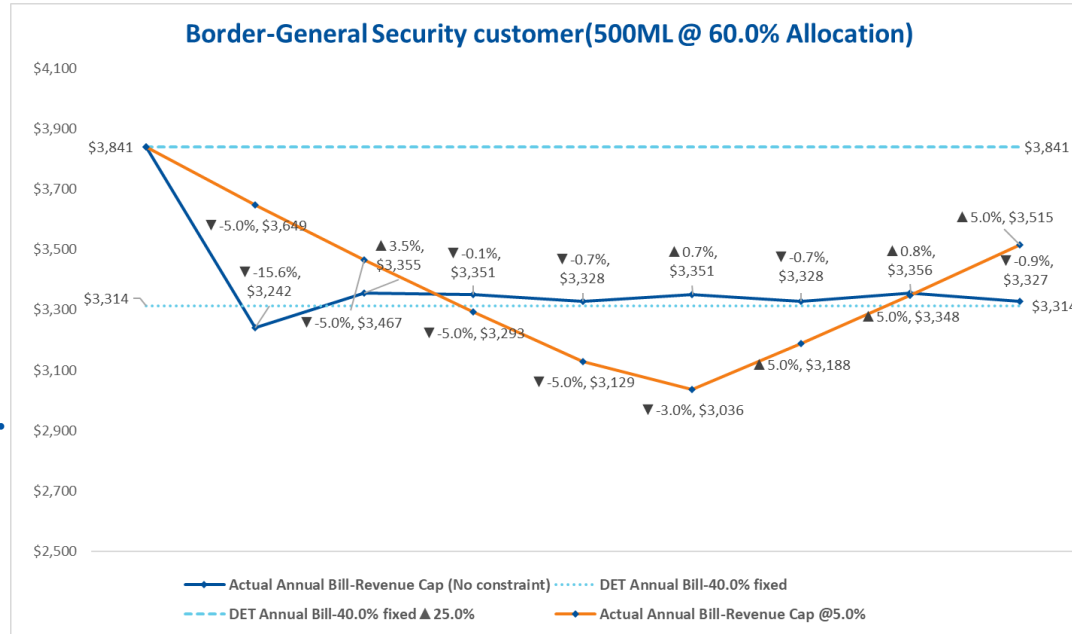
13 November 2023

# Revenue Cap – How does it work

## Bill Impact – Volume increase (Border)



↑  
Volume  
increase  
+25% p.a.



The light blue line is what customers pay under current price cap 40:60 fixed / variable

The dark blue line is what customers would pay under revenue cap (with no side constraint), if water usage is up 25% every year.

The orange line is what customers would pay under revenue cap (with annual 5% side constraint). In this scenario:

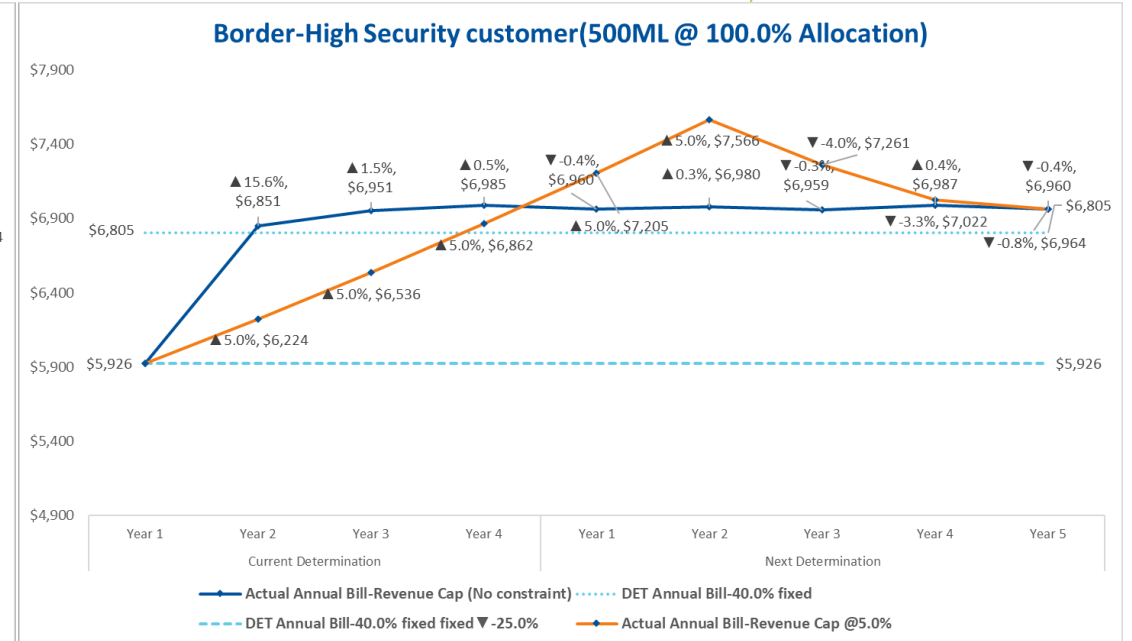
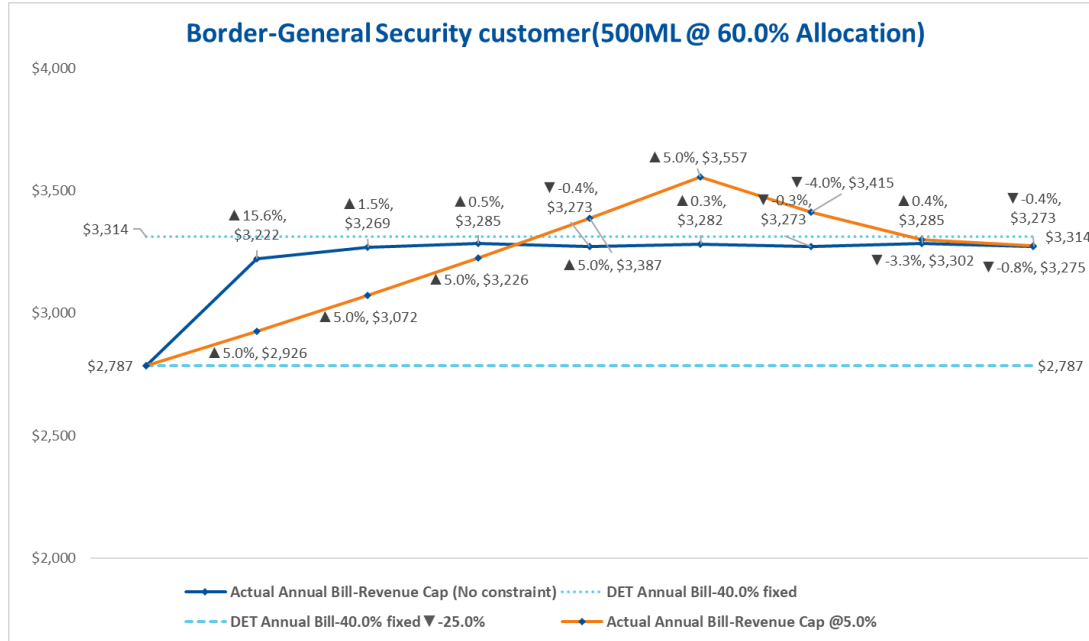
- Genera Security and High Security customers in this scenario would face:
  - A 15.6% decrease in Year 2, then mostly flat charges under a revenue cap (no side constraint)
  - A 5% decrease annually for 5 years with a revenue cap (5% side constraint), then 5% increases for 3 years

# Revenue Cap – How does it work

## Bill Impact – Volume decrease (Border)



Volume decrease  
-25% p.a.



The light blue line is what customers pay under current price cap 40:60 fixed / variable

The dark blue line is what customers would pay under revenue cap (with no side constraint), if water usage is down 25% every year.  
The orange line is what customers would pay under revenue cap (with annual 5% side constraint). In this scenario:

- Genera Security and High Security customers in this scenario would face:
  - A 15.6% increase in Year 2, then flat charges under a revenue cap (no side constraint)
  - A 5% increase annually for 5 years with a revenue cap (5% side constraint), then 4% reductions for 2 years

# Revenue Cap – Summary of issues



A Revenue Cap ensures **only the IPART allowed revenue is recovered – no more, no less**

A pricing side constraint is proposed to **protect against potentially large price movements.**

This pricing side constraint could limit the bill impact in any year eg 5%, 10% etc

We note that the tighter the side pricing constraint the more likely that a large under- or over-recovery balance could result, **which is not in the long-term interests of customers.**

# Price Cap – what are we considering?

In the absence of a revenue cap, WaterNSW would need to **seek continuing fixed charge increases** to align to our predominantly fixed cost structure

This would ultimately see fixed charges **raise to 90-95%** over time

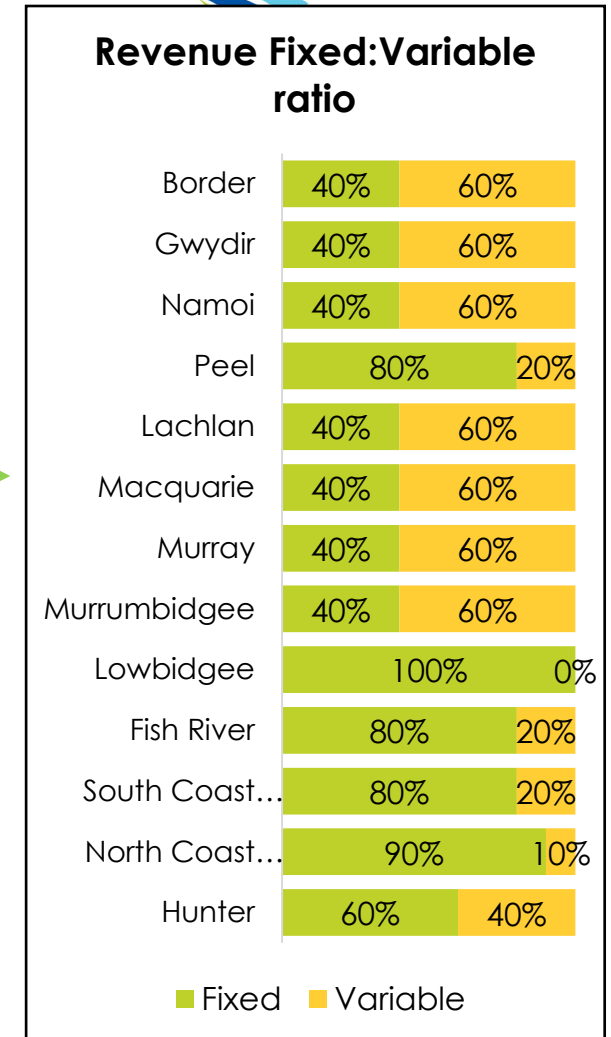
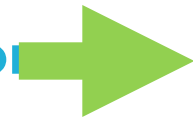
To minimise bill impacts for customers, we propose to transition to full cost recovery over two regulatory periods

We are contemplating fixed charges of 70% in 2025 for those valleys currently on a fixed charge below 80% (consistent with the former State Water’s pricing structures).

Other transition paths could be contemplated

For those valleys with fixed charges of 80% or higher, no change is proposed to fixed charge levels in 2025

We are considering moving to fully fixed charges for some larger customers, including environmental water holders

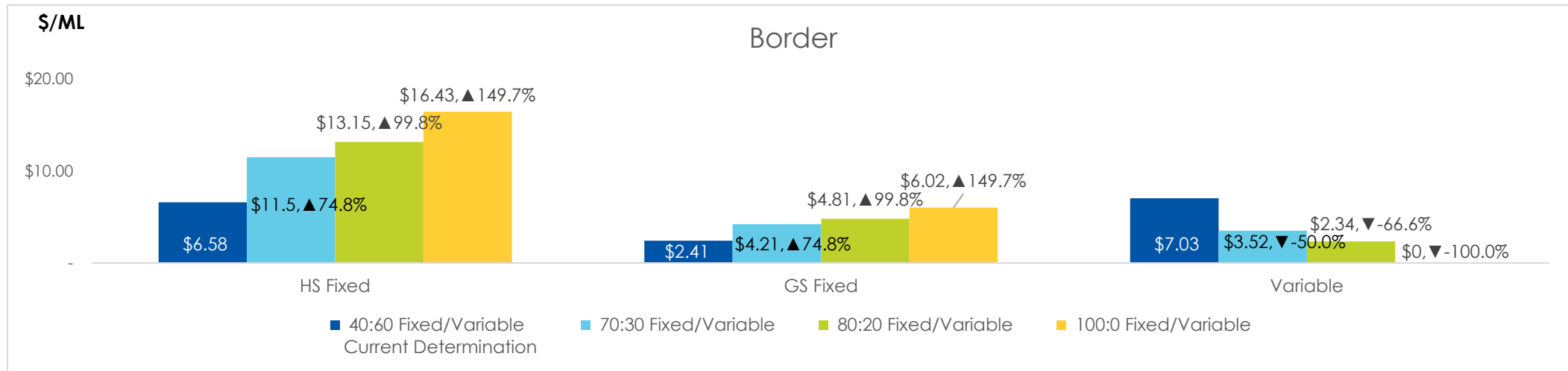


# Price cap



## Scenarios with higher fixed charges

The table below outlines what prices under the current IPART determination would have been at different fixed charge levels for your valley



- WaterNSW seeks customers' initial preferences between maintaining a price cap and transitioning to higher fixed charges in 2025 versus introducing a revenue cap in 2025?

**What are your comments on the possible introduction of a revenue cap in 2025 and/or transitioning to more cost reflective tariffs?**

**If a revenue cap is introduced, do you think a side constraint would be required and if so, at what level?**

# Welcome Border Rivers Customer Advisory Group

20 March 2024

# WaterNSW cost structures and pricing approaches



Over the past 9 months we have discussed:

- WaterNSW's **costs do not vary with water deliveries**
- IPART has a pricing framework that means the revenue for WaterNSW **varies significantly based on water deliveries**
- The pricing risk to customers for periodic updates to the assumed level of water deliveries
- IPART establishes their view of the **minimum efficient costs** for WaterNSW
- WaterNSW **target revenues** are based on these minimum efficient costs
- Approaches to aligning how WaterNSW recovers its revenues and its costs
- Approaches to ensuring that WaterNSW recovers the minimum efficient costs to run its activities, no more, no less
- The principles that a revenue cap would seek to achieve
- Stylized examples of revenue caps to examine how revenue caps can operate

**Today we are here to:**

- see how the options would have worked **with the same water volumes that have occurred over the last 10 years**; and
- test – do the opportunities or risks align with **your risks** and
- how you want to do business with WaterNSW?

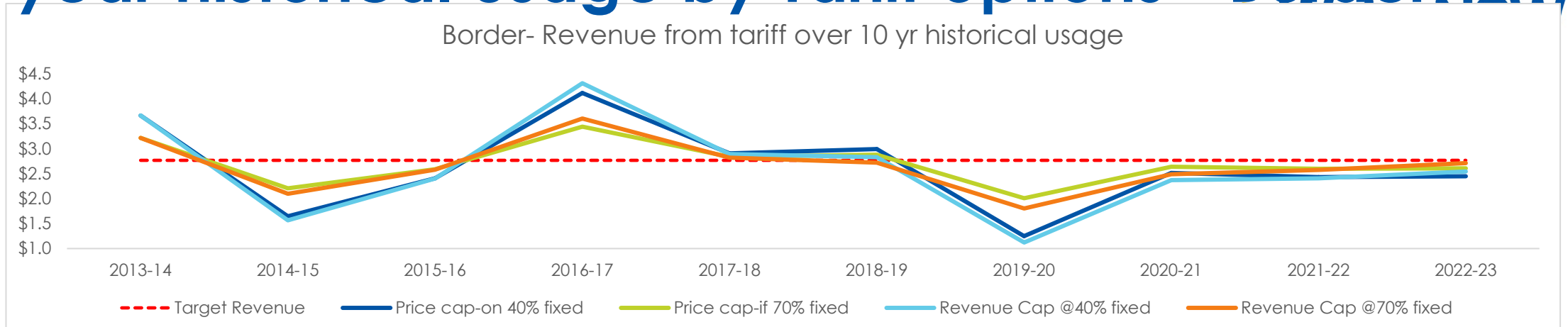
# Summary of analysis



Examining the last 10 years of data suggests the following

- WaterNSW would have recovered **more** than IPART's allowance under a price cap than a revenue cap
- Customers would have paid the **least** under the following:
  - ❑ Price cap with existing tariffs (status quo) - **0**
  - ❑ Price cap with higher fixed charges (e.g. 70%) - **0**
  - ❑ Revenue cap with existing tariffs (e.g. 40% or 60%) – **5** Border, Namoi, Murray, Murrumbidgee, Peel
  - ❑ Revenue cap with higher fixed charges (e.g. 70%) – **4** Hunter, Gwydir, Lachlan, Macquarie,
- There is less pricing and bill volatility irrespective of the form of control as fixed charges increase
- Under a price cap, **2** valleys would have been better off by maintaining current tariff structures (Hunter, Border), while **6** valleys would have been better off with higher fixed charges
- Assuming the current tariff structure is maintained, **all valleys would have been better off under a revenue cap**
- **Half of the valleys would have been even better off with a revenue cap and higher fixed charges**

# 10-year historical usage by Tariff options - Border...



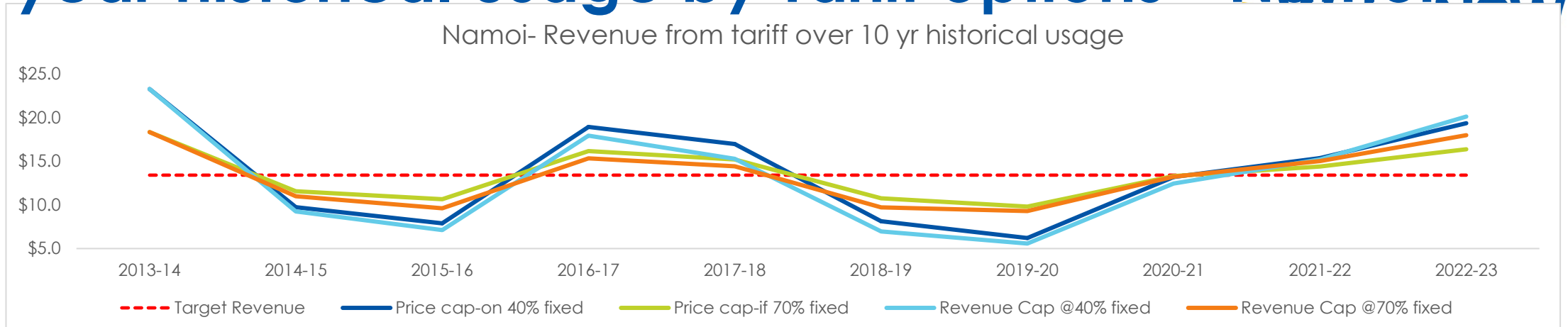
Border-Revenue from Tariff (Fixed and Variable) \$millions, \$2024-25	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total 10 years	Vs Target Revenue	
Target Revenue	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$27.7		
Price cap-on 40% fixed	\$3.7	\$1.6	\$2.4	\$4.1	\$2.9	\$3.0	\$1.2	\$2.5	\$2.4	\$2.4	\$26.4	\$1.3	Customers Underpaid
Price cap-if 70% fixed	\$3.2	\$2.2	\$2.6	\$3.4	\$2.8	\$2.9	\$2.0	\$2.6	\$2.6	\$2.6	\$27.0	\$0.6	Customers Underpaid
Revenue Cap @40% fixed	\$3.7	\$1.6	\$2.4	\$4.3	\$2.9	\$2.8	\$1.1	\$2.4	\$2.4	\$2.5	\$26.1	\$1.6	Customers Underpaid
Revenue Cap @70% fixed	\$3.2	\$2.1	\$2.6	\$3.6	\$2.8	\$2.7	\$1.8	\$2.5	\$2.6	\$2.7	\$26.6	\$1.1	Customers Underpaid

Proposal Volume (updated 20 yr rolling Avg)	128 GL	128 GL	128 GL	128 GL	128 GL	128 GL	128 GL	128 GL	128 GL	128 GL
Historical Volume	197 GL	42 GL	100 GL	232 GL	139 GL	146 GL	11 GL	109 GL	102 GL	104 GL
	54% Up	-67% Down	-22% Down	81% Up	8% Up	14% Up	-91% Down	-15% Down	-20% Down	-19% Down

## Comments:

- Under all scenarios customers paid less than was determined by IPART over the 10 years
- Increasing fixed rates under the price cap resulted in less variance over 10 years from the target and less year to year bill volatility
- With the exception of "2016/17 & 2022/23" bills under revenue caps were typically on par or lower than price caps
- Bills under the revenue cap scenario were the lowest during the lowest water delivery years
- The total variance after 10 years for this valley is below the target and reflects that the last 4 years were below the target assumed

# 10-year historical usage by Tariff options - Namoi



Namoi-Revenue from Tariff (Fixed and Variable) \$millions, \$2024-25	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total 10 years	Vs Target Revenue	
Target Revenue	\$13.4	\$13.4	\$13.4	\$13.4	\$13.4	\$13.4	\$13.4	\$13.4	\$13.4	\$13.4	\$134.0		
Price cap-on 40% fixed	\$23.3	\$9.7	\$7.9	\$18.9	\$17.0	\$8.1	\$6.2	\$13.2	\$15.4	\$19.3	\$139.0	-\$5.0	Customers Overpaid
Price cap-if 70% fixed	\$18.3	\$11.6	\$10.6	\$16.2	\$15.2	\$10.8	\$9.8	\$13.3	\$14.4	\$16.4	\$136.5	-\$2.5	Customers Overpaid
Revenue Cap @40% fixed	\$23.3	\$9.3	\$7.1	\$17.9	\$15.3	\$7.0	\$5.6	\$12.4	\$15.2	\$20.1	\$133.1	\$0.9	Customers Underpaid
Revenue Cap @70% fixed	\$18.3	\$11.0	\$9.6	\$15.3	\$14.4	\$9.7	\$9.3	\$13.2	\$15.0	\$18.0	\$133.9	\$0.1	Customers Underpaid

Proposal Volume (updated 20 yr rolling Avg)	122 GL	122 GL	122 GL	122 GL	122 GL	122 GL	122 GL	122 GL	122 GL	122 GL
Historical Volume	272 GL	66 GL	38 GL	206 GL	176 GL	42 GL	13 GL	119 GL	152 GL	212 GL
	123% Up	-46% Down	-69% Down	69% Up	44% Up	-66% Down	-90% Down	-3% Down	24% Up	74% Up

## Comments:

- Under the price cap scenarios customers paid more than was determined by IPART over the 10 years under revenue cap scenarios customers paid less
- Increasing fixed rates under the price cap resulted in less variance over 10 years from the target and less year to year bill volatility
- With the exception of "2022/23" bills under revenue caps were typically on par or lower than price caps
- Bills under the revenue cap scenario were the lowest during the lowest water delivery years

24 **WaterNSW** The total variance after 10 years for this valley have less variability under the revenue caps than price caps despite large variances in actual water volumes compared to target

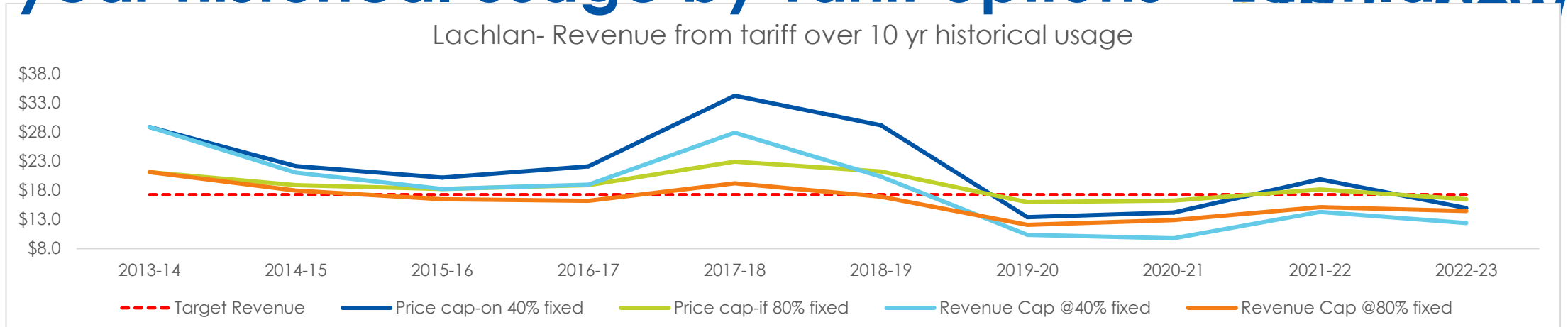
# Reference slides



10-year revenue cap and price cap analysis by valley



# 10-year historical usage by Tariff options - Lachlan



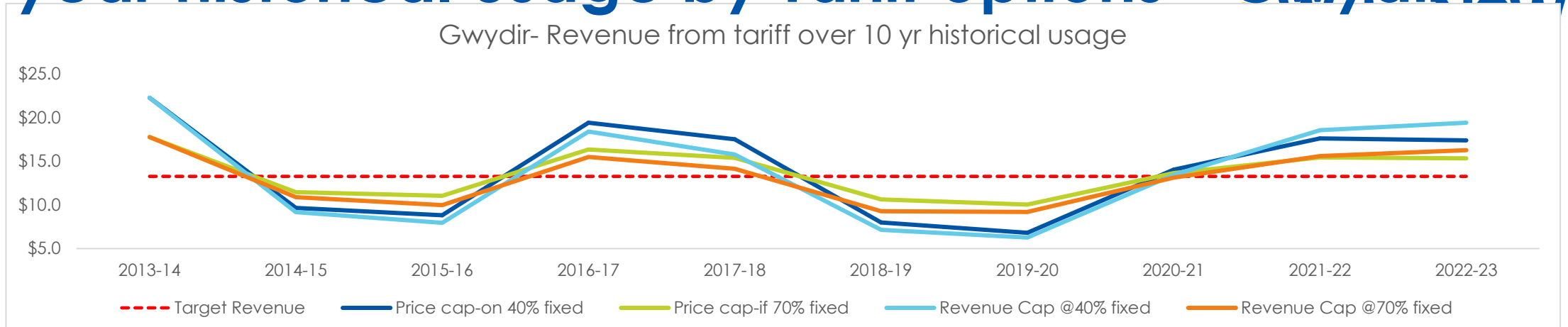
Lachlan-Revenue from Tariff (Fixed and Variable) \$millions, \$2024-25	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total 10 years	Vs Target Revenue	
Target Revenue	\$17.3	\$17.3	\$17.3	\$17.3	\$17.3	\$17.3	\$17.3	\$17.3	\$17.3	\$17.3	\$172.6		
Price cap-on 40% fixed	\$28.9	\$22.2	\$20.2	\$22.1	\$34.2	\$29.2	\$13.4	\$14.2	\$19.9	\$15.0	\$219.1	-\$46.5	Customers Overpaid
Price cap-if 80% fixed	\$21.1	\$18.9	\$18.2	\$18.9	\$22.9	\$21.2	\$16.0	\$16.2	\$18.1	\$16.5	\$188.1	-\$15.5	Customers Overpaid
Revenue Cap @40% fixed	\$28.9	\$21.0	\$18.2	\$19.0	\$27.9	\$20.3	\$10.3	\$9.8	\$14.3	\$12.4	\$182.1	-\$9.5	Customers Overpaid
Revenue Cap @80% fixed	\$21.1	\$17.9	\$16.5	\$16.2	\$19.2	\$16.9	\$12.1	\$12.9	\$15.1	\$14.4	\$162.3	\$10.3	Customers Underpaid

Proposal Volume (updated 20 yr rolling Avg)	117 GL	117 GL	117 GL	117 GL	117 GL	117 GL	117 GL	117 GL	117 GL	117 GL
Historical Volume	248 GL	172 GL	150 GL	172 GL	309 GL	252 GL	73 GL	82 GL	147 GL	91 GL
	112% Up	47% Up	28% Up	47% Up	164% Up	115% Up	-37% Down	-30% Down	25% Up	-22% Down

## Comments:

- Under 3 scenarios customers would have paid more than determined by IPART over the 10 years. The two revenue cap scenarios provided the best outcome for customers (lowest overall costs) with the "Revenue Cap @ 80% fixed" scenario providing the lowest total cost.
- Increasing fixed rates under a price cap resulted in lower costs over 10 years and less year-to-year bill volatility.
- Bills under the revenue cap scenarios were the lowest during the lowest water delivery years as prior over-recoveries were returned.
- After 10 years there was less total variance to target under the revenue caps than price caps despite large volume variations vs target

# 10-year historical usage by Tariff options - Gwydir



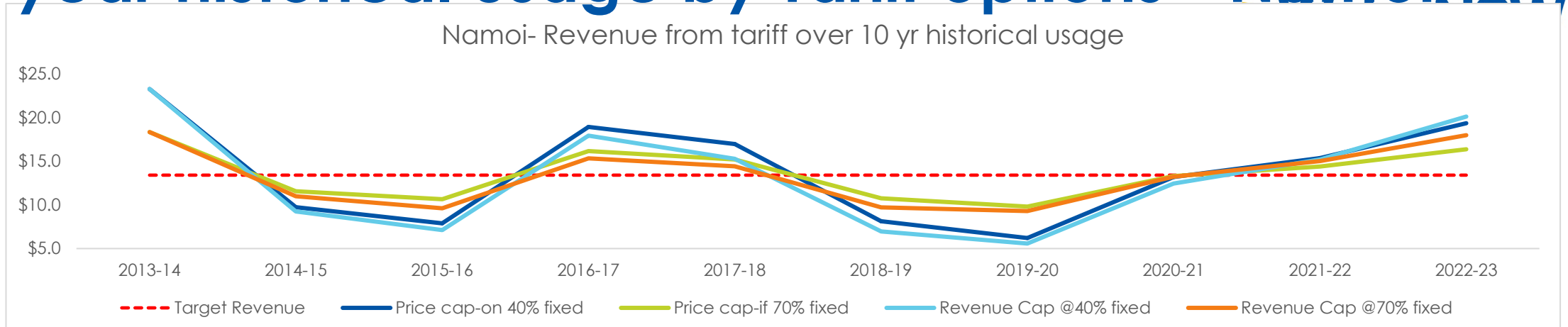
Gwydir-Revenue from Tariff (Fixed and Variable) \$millions, \$2024-25	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total 10 years	Vs Target Revenue	
Target Revenue	\$13.3	\$13.3	\$13.3	\$13.3	\$13.3	\$13.3	\$13.3	\$13.3	\$13.3	\$13.3	\$132.6		
Price cap-on 40% fixed	\$22.3	\$9.7	\$8.8	\$19.4	\$17.5	\$8.0	\$6.8	\$14.0	\$17.6	\$17.4	\$141.5	-\$8.8	Customers Overpaid
Price cap-if 70% fixed	\$17.8	\$11.5	\$11.0	\$16.3	\$15.4	\$10.6	\$10.0	\$13.6	\$15.4	\$15.3	\$137.0	-\$4.4	Customers Overpaid
Revenue Cap @40% fixed	\$22.3	\$9.2	\$8.0	\$18.4	\$15.8	\$7.1	\$6.3	\$13.4	\$18.5	\$19.4	\$138.3	-\$5.7	Customers Overpaid
Revenue Cap @70% fixed	\$17.8	\$10.9	\$10.0	\$15.5	\$14.1	\$9.3	\$9.2	\$13.1	\$15.6	\$16.3	\$131.6	\$1.0	Customers Underpaid

Proposal Volume (updated 20 yr rolling Avg)	177 GL	177 GL	177 GL	177 GL	177 GL	177 GL	177 GL	177 GL	177 GL	177 GL
Historical Volume	377 GL	97 GL	78 GL	313 GL	271 GL	60 GL	33 GL	194 GL	273 GL	268 GL
	113% Up	-45% Down	-56% Down	77% Up	53% Up	-66% Down	-81% Down	10% Up	55% Up	52% Up

## Comments:

- Under 3 scenarios customers paid more than was determined by IPART over the 10 years
- Increasing fixed rates under the price cap resulted in less variance over 10 years from the target and less year to year bill volatility
- With the exception of "2021/22 & 2022/23" bills under revenue caps were typically on par or lower than price caps
- Bills under the revenue cap scenario were the lowest during the lowest water delivery years
- The total variance after 10 years for this valley is highlight the large swings in actual water delivery to the assumed target (only 2 out of 10 years were less than 50% variance)
- Noting the large swings in volumes the difference after the first 5 years the over recovery cap was triggered and taken off the valley RAB

# 10-year historical usage by Tariff options - Namoi



Namoi-Revenue from Tariff (Fixed and Variable) \$millions, \$2024-25	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total 10 years	Vs Target Revenue	
Target Revenue	\$13.4	\$13.4	\$13.4	\$13.4	\$13.4	\$13.4	\$13.4	\$13.4	\$13.4	\$13.4	\$134.0		
Price cap-on 40% fixed	\$23.3	\$9.7	\$7.9	\$18.9	\$17.0	\$8.1	\$6.2	\$13.2	\$15.4	\$19.3	\$139.0	-\$5.0	Customers Overpaid
Price cap-if 70% fixed	\$18.3	\$11.6	\$10.6	\$16.2	\$15.2	\$10.8	\$9.8	\$13.3	\$14.4	\$16.4	\$136.5	-\$2.5	Customers Overpaid
Revenue Cap @40% fixed	\$23.3	\$9.3	\$7.1	\$17.9	\$15.3	\$7.0	\$5.6	\$12.4	\$15.2	\$20.1	\$133.1	\$0.9	Customers Underpaid
Revenue Cap @70% fixed	\$18.3	\$11.0	\$9.6	\$15.3	\$14.4	\$9.7	\$9.3	\$13.2	\$15.0	\$18.0	\$133.9	\$0.1	Customers Underpaid

Proposal Volume (updated 20 yr rolling Avg)	122 GL	122 GL	122 GL	122 GL	122 GL	122 GL	122 GL	122 GL	122 GL	122 GL
Historical Volume	272 GL	66 GL	38 GL	206 GL	176 GL	42 GL	13 GL	119 GL	152 GL	212 GL
	123% Up	-46% Down	-69% Down	69% Up	44% Up	-66% Down	-90% Down	-3% Down	24% Up	74% Up

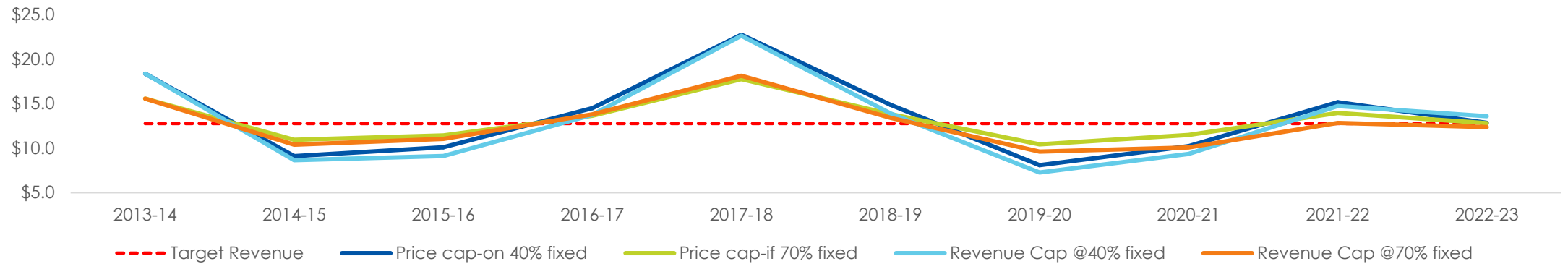
## Comments:

- Under the price cap scenarios customers paid more than was determined by IPART over the 10 years under revenue cap scenarios customers paid less
- Increasing fixed rates under the price cap resulted in less variance over 10 years from the target and less year to year bill volatility
- With the exception of "2022/23" bills under revenue caps were typically on par or lower than price caps
- Bills under the revenue cap scenario were the lowest during the lowest water delivery years

28 WaterNSW The total variance after 10 years for this valley have less variability under the revenue caps than price caps despite large variances in actual water volumes compared to target

# 10-year historical usage by Tariff options - Macquarie

Macquarie- Revenue from tariff over 10 yr historical usage



Macquarie- Revenue from Tariff (Fixed and Variable) \$millions, \$2024-25	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total 10 years	Vs Target Revenue	
Target Revenue	\$12.8	\$12.8	\$12.8	\$12.8	\$12.8	\$12.8	\$12.8	\$12.8	\$12.8	\$12.8	\$127.6		
Price cap-on 40% fixed	\$18.4	\$9.1	\$10.1	\$14.5	\$22.7	\$14.9	\$8.1	\$10.2	\$15.2	\$12.8	\$136.0	-\$8.4	Customers Overpaid
Price cap-if 70% fixed	\$15.6	\$10.9	\$11.4	\$13.6	\$17.8	\$13.8	\$10.4	\$11.5	\$14.0	\$12.8	\$131.8	-\$4.2	Customers Overpaid
Revenue Cap @40% fixed	\$18.4	\$8.6	\$9.1	\$13.7	\$22.6	\$13.9	\$7.3	\$9.4	\$14.7	\$13.6	\$131.3	-\$3.7	Customers Overpaid
Revenue Cap @70% fixed	\$15.6	\$10.4	\$11.0	\$13.8	\$18.1	\$13.4	\$9.6	\$10.1	\$12.8	\$12.4	\$127.2	\$0.4	Customers Underpaid

Proposal Volume (updated 20 yr rolling Avg)	143 GL	143 GL	143 GL	143 GL	143 GL	143 GL	143 GL	143 GL	143 GL	143 GL
Historical Volume	248 GL	75 GL	93 GL	176 GL	330 GL	183 GL	56 GL	96 GL	188 GL	145 GL
	73% Up	-48% Down	-35% Down	23% Up	130% Up	28% Up	-61% Down	-33% Down	31% Up	1% Up

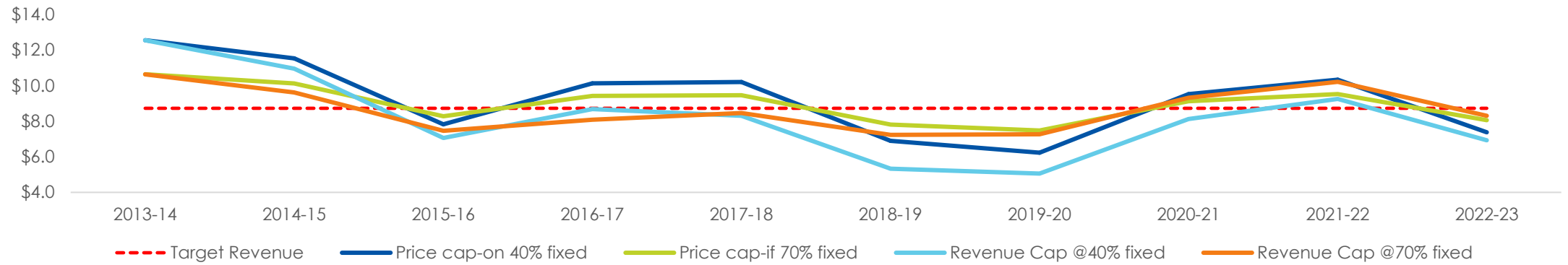
## Comments:

- Under 3 scenarios customers paid more than was determined by IPART over the 10 years
- Increasing fixed rates under the price cap resulted in less variance over 10 years from the target and less year to year bill volatility
- With the exception of "2022/23" bills under revenue caps were typically on par or lower than price caps
- Bills under the revenue cap scenario were the lowest during the lowest water delivery years
- The total variance after 10 years for this valley have less variability under the revenue caps than price caps despite large variances in actual water volumes compared to target

- Noting the that all volumes in the first 5 years is more than forecast by IPART the over recovery cap was triggered and taken off the valley RAB

# 10-year historical usage by Tariff options - Murray

Murray- Revenue from tariff over 10 yr historical usage



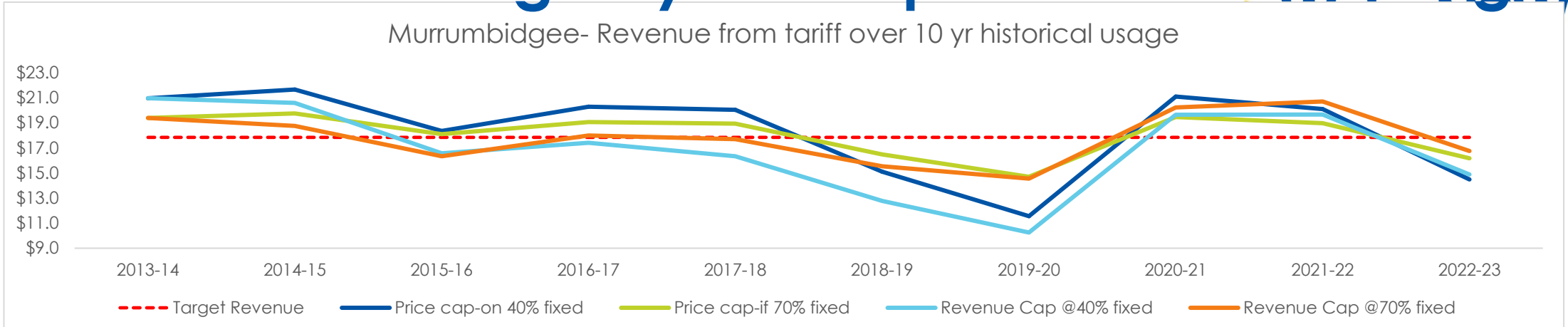
Murray- Revenue from Tariff (Fixed and Variable) \$millions, \$2024-25	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total 10 years	Vs Target Revenue	
Target Revenue	\$8.7	\$8.7	\$8.7	\$8.7	\$8.7	\$8.7	\$8.7	\$8.7	\$8.7	\$8.7	\$87.3		
Price cap-on 40% fixed	\$12.6	\$11.5	\$7.8	\$10.1	\$10.2	\$6.9	\$6.2	\$9.5	\$10.3	\$7.4	\$92.6	-\$5.3	Customers Overpaid
Price cap-if 70% fixed	\$10.6	\$10.1	\$8.3	\$9.4	\$9.5	\$7.8	\$7.5	\$9.1	\$9.5	\$8.1	\$90.0	-\$2.7	Customers Overpaid
Revenue Cap @40% fixed	\$12.6	\$11.0	\$7.1	\$8.7	\$8.3	\$5.3	\$5.1	\$8.1	\$9.3	\$6.9	\$82.3	\$5.0	Customers Underpaid
Revenue Cap @70% fixed	\$10.6	\$9.6	\$7.5	\$8.1	\$8.5	\$7.2	\$7.3	\$9.3	\$10.2	\$8.3	\$86.6	\$0.7	Customers Underpaid

Proposal Volume (updated 20 yr rolling Avg)	1,108 GL	1,108 GL	1,108 GL	1,108 GL	1,108 GL	1,108 GL	1,108 GL	1,108 GL	1,108 GL	1,108 GL
Historical Volume	1,917 GL	1,701 GL	917 GL	1,404 GL	1,420 GL	721 GL	580 GL	1,276 GL	1,448 GL	822 GL
	73% Up	54% Up	-17% Down	27% Up	28% Up	-35% Down	-48% Down	15% Up	31% Up	-26% Down

## Comments:

- Under the price cap scenarios customers paid more than was determined by IPART over the 10 years under revenue cap scenarios customers paid less
- Increasing fixed rates under the price cap resulted in less variance over 10 years from the target and less year to year bill volatility
- With the exception of "2020/21 to 2022/23" bills under revenue caps were typically on par or lower than price caps
- Bills under the revenue cap scenario were the lowest during the lowest water delivery years

# 10-year historical usage by Tariff options - Murrumbidgee



Murrumbidgee-Revenue from Tariff (Fixed and Variable) \$millions, \$2024-25	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total 10 years	Vs Target Revenue	
Target Revenue	\$17.8	\$17.8	\$17.8	\$17.8	\$17.8	\$17.8	\$17.8	\$17.8	\$17.8	\$17.8	\$178.4		
Price cap-on 40% fixed	\$21.0	\$21.7	\$18.4	\$20.3	\$20.0	\$15.1	\$11.6	\$21.1	\$20.1	\$14.5	\$183.7	-\$5.2	Customers Overpaid
Price cap-if 70% fixed	\$19.4	\$19.8	\$18.1	\$19.1	\$18.9	\$16.5	\$14.7	\$19.5	\$19.0	\$16.2	\$181.1	-\$2.6	Customers Overpaid
Revenue Cap @40% fixed	\$21.0	\$20.6	\$16.6	\$17.4	\$16.3	\$12.8	\$10.3	\$19.7	\$19.7	\$14.9	\$169.1	\$9.4	Customers Underpaid
Revenue Cap @70% fixed	\$19.4	\$18.8	\$16.3	\$18.0	\$17.7	\$15.5	\$14.6	\$20.2	\$20.7	\$16.8	\$178.0	\$0.5	Customers Underpaid

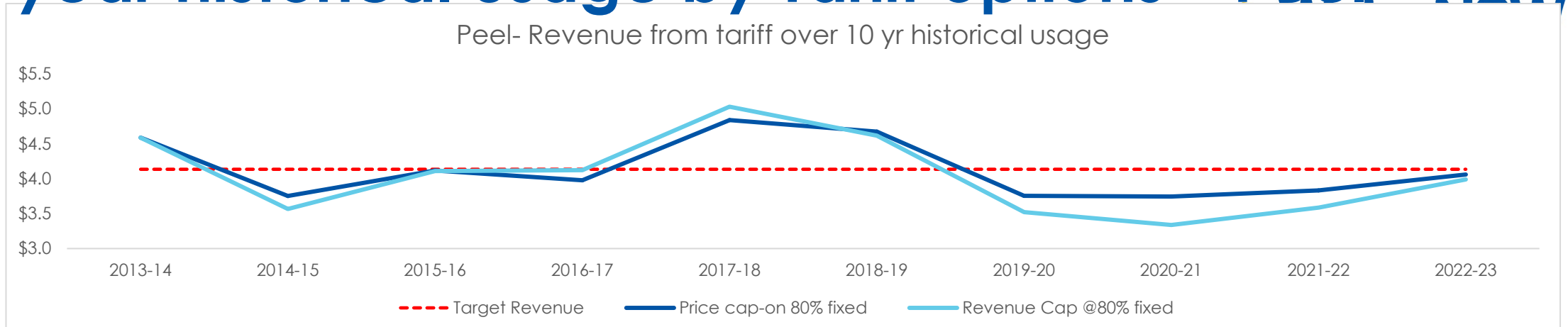
Proposal Volume (updated 20 yr rolling Avg)	1,269 GL	1,269 GL	1,269 GL	1,269 GL	1,269 GL	1,269 GL	1,269 GL	1,269 GL	1,269 GL	1,269 GL
Historical Volume	1,638 GL	1,721 GL	1,329 GL	1,558 GL	1,529 GL	944 GL	524 GL	1,654 GL	1,536 GL	871 GL
	29% Up	36% Up	5% Up	23% Up	21% Up	-26% Down	-59% Down	30% Up	21% Up	-31% Down

**Comments:**

- Under the price cap scenarios customers paid more than was determined by IPART over the 10 years under revenue cap scenarios customers paid less
- Increasing fixed rates under the price cap resulted in less variance over 10 years from the target and less year to year bill volatility
- With the exception of "2020/21 to 2022/23" bills under revenue caps were typically on par or lower than price caps
- Bills under the revenue cap scenario were the lowest during the lowest water delivery years

31 WaterNSW The total variance after 10 years for this valley is least volatile under a revenue cap with higher fixed charges

# 10-year historical usage by Tariff options – Peel valley



Peel-Revenue from Tariff (Fixed and Variable) \$millions, \$2024-25	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total 10 years	Vs Target Revenue	
Target Revenue	\$4.1	\$4.1	\$4.1	\$4.1	\$4.1	\$4.1	\$4.1	\$4.1	\$4.1	\$4.1	\$41.3		
Price cap-on 80% fixed	\$4.6	\$3.8	\$4.1	\$4.0	\$4.8	\$4.7	\$3.8	\$3.7	\$3.8	\$4.1	\$41.3	\$0.0	Customers Underpaid
Price cap-if 70% fixed	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a		
Revenue Cap @80% fixed	\$4.6	\$3.6	\$4.1	\$4.1	\$5.0	\$4.6	\$3.5	\$3.3	\$3.6	\$4.0	\$40.5	\$0.9	Customers Underpaid
Revenue Cap @70% fixed	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a		

Proposal Volume (updated 20 yr rolling Avg)	11 GL	11 GL	11 GL	11 GL	11 GL	11 GL	11 GL	11 GL	11 GL	11 GL
Historical Volume	17 GL	6 GL	11 GL	9 GL	21 GL	19 GL	6 GL	6 GL	7 GL	10 GL
	55% Up	-46% Down	-2% Down	-19% Down	85% Up	65% Up	-46% Down	-47% Down	-37% Down	-9% Down

## Comments:

- Under the price cap scenarios customers paid less than was determined by IPART over the 10 years under revenue cap scenarios customers paid less again
- Increasing fixed rates is not relevant to this valley as it is at 80%
- With the exception of “2017/18” bills under revenue caps were typically on par or lower than price caps
- Bills under the revenue cap scenario were the lowest during the lowest water delivery years

# CAG Pricing Recap - Border



May 2024



**We started by  
talking about our  
fixed costs and  
options**

# What drives our costs for your valley – Border Rivers



Revenue from Tariffs (\$000s, \$2020-21) - Border	Current Determination				Current Fixed %
	Cost Base-Total	Cost Base-Total %	Cost Base-Fixed	Cost Base-Fixed %	
Accounts and Billing	\$229	14.3%	\$229	99.9%	40.0%
Water Delivery and Operations	\$305	19.1%	\$297	97.1%	
Metering and Compliance	\$153	9.5%	\$153	99.9%	
Water Quality Monitoring	\$59	3.7%	\$51	85.8%	
Asset Management	\$469	29.3%	\$429	91.6%	
Dam Safety Compliance	\$116	7.2%	\$115	98.6%	
Environmental Planning and Protection	\$7	0.4%	\$7	97.9%	
Water Infrastructure Assets-Funding Costs	\$263	16.4%	\$263	100.0%	
<b>Total allowed efficient costs-Annual</b>	<b>\$1,602</b>	<b>100%</b>	<b>\$1,543</b>	<b>96.3%</b>	

What changes with water deliveries:

- Certain contractor and consultancy costs
- Certain water quality laboratory costs, chemicals, electricity for pumping, maintenance contractors, water operations planning and delivery costs.

In other words – our costs and the target revenue allowed by IPART really don't change with the amount of water delivered to customers

56% gap

# Option Summary



Price Structure	Cost Reflective (Higher Fixed Charges)	Status Quo 40:60	Customer Choice
Design Elements	<ul style="list-style-type: none"> <li>• Valley Pricing</li> <li>• Cost Reflective</li> <li>• High bill volatility in the short-term due to transition</li> <li>• Low bill volatility after implementation</li> <li>• Low risk of over recovery of revenue</li> <li>• No risk mitigation required</li> </ul>	<ul style="list-style-type: none"> <li>• Valley Pricing</li> <li>• Not cost reflective</li> <li>• Volatile cash flows/bills</li> <li>• Require Risk Mitigation</li> <li>• High risk of over recovery of revenue</li> </ul>	<ul style="list-style-type: none"> <li>• Valley Pricing</li> <li>• Flexibility</li> <li>• Opt-in for period</li> <li>• More sophisticated offerings e.g. based on type and purpose</li> <li>• Customer control over cash flow/bills</li> </ul>
Form of Regulation	Price Cap	Price Cap	Revenue Cap
Reliance on volume forecast accuracy	Low	High	Low

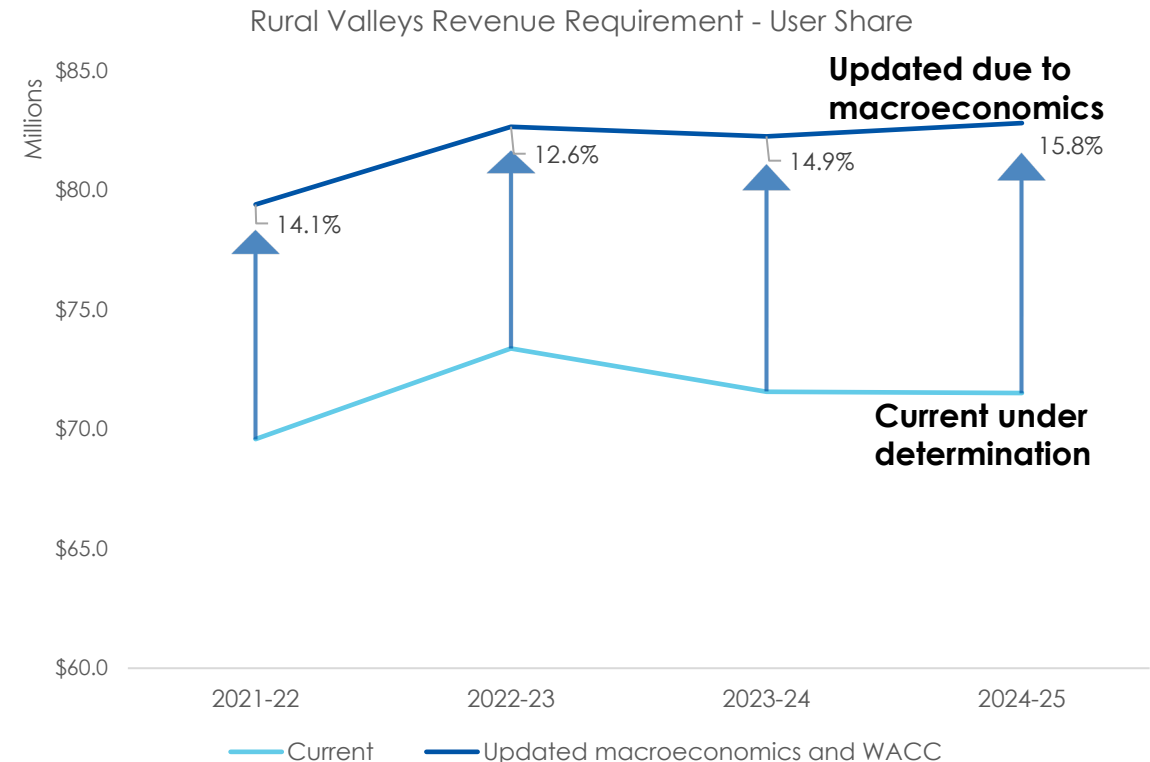
**We got deeper by  
looking at the  
macro environment  
/ policy costs and  
volume risks**

## If Macroeconomics were applied to current determination revenue requirements – Rural Valleys (User Share)



Holding other costs constant, and substituting these factors into the 2021 IPART Determination, would lead to average price changes above IPART’s approved levels.

Rural Valleys Revenue Variance (%) Real	2021-22	2022-23	2023-24	2024-25	FY22-FY25 Average
Higher WACC	12.4%	12.7%	14.1%	14.9%	13.5%
Updated Macroeconomics	1.7%	-0.1%	0.8%	0.9%	0.9%
<b>Total</b>	<b>14.1%</b>	<b>12.6%</b>	<b>14.9%</b>	<b>15.8%</b>	<b>14.4%</b>
Inland Valleys and Fish River Revenue Variance (%) Real	2021-22	2022-23	2023-24	2024-25	FY22-FY25 Average
Higher WACC	13.5%	13.9%	15.4%	16.3%	14.8%
Updated Macroeconomics	1.7%	-0.1%	0.8%	0.8%	0.8%
<b>Total</b>	<b>15.2%</b>	<b>13.8%</b>	<b>16.2%</b>	<b>17.2%</b>	<b>15.6%</b>
Coastal Valleys Revenue Variance (%) Real	2021-22	2022-23	2023-24	2024-25	FY22-FY25 Average
Higher WACC	3.3%	3.4%	3.7%	3.9%	3.6%
Updated Macroeconomics	2.0%	0.0%	1.1%	1.1%	1.0%
<b>Total</b>	<b>5.3%</b>	<b>3.4%</b>	<b>4.8%</b>	<b>5.0%</b>	<b>4.6%</b>



The percentages shown in the tables above are the % changes in the revenue requirement, and not the rate of return on capital (WACC).

# Policy and legislative changes

## What has changed since 2021?

- Additional **requirements in our Operating Licence**, eg
  - implementing the floodplain harvesting-related functions (coming soon),
  - data sharing agreements with DPE and NRAR
- Water Sharing Plans have been remade and create additional **obligations to release, account for, actively manage and protect, communicate and monitor environmental flows**
- Additional **fish passage requirements** as per s218 of the Fisheries Act
- The **new Dams Safety Act and Regulation**, changed compliance obligations
- Implementing the **Non-Urban Water Metering Policy** means more staff and an investment in technology and systems. The Policy is being reviewed again, with financial impacts uncertain at this stage
- Need to **increase our knowledge of climate change** to inform our adaptation plans, including modified catchment management, dam design and river operations

# Policy and legislative changes

- Increasing the **security of critical infrastructure (SOCI)** eg dams, data, Risk Management Plan (Federal SOCI Act) with annual reporting requirements from 2024
- **Cyber security** and the need for non-open source data and information protection
- **Environmental Social Governance (ESG) reporting** to the NSW Government and community, eg annual reporting and a future scorecard
- Upcoming **Climate Related Financial Disclosure reporting** requirements to NSW Treasury
- Commonwealth Water Market Reforms, compliance and reporting obligations will require **changes to trading processes and sharing/publication of data and information**
- **The IPART process** (3Cs – customer, cost and credibility) – has increased the requirements on all water utilities, most notably for customer and community engagement.

**Holding other costs constant, a lower 20-year rolling average would increase variable charges in the MDB valleys by almost 16% on average and increase total bills by over 13% on average**

20-year rolling Average	Current Determination	Updated	20 year rolling Average Change	2024-25 Annual Price Review Variable Charge adjustment*	Bill Impact if on 60% allocation (GS)
Valley	2000-01 to 2019-20	2003-04 to 2022-22	%	%	%
Border	139,453 ML	128,308 ML	-8.0%	12.6%	9.4%
Gwydir	220,489 ML	202,463 ML	-8.2%	12.9%	10.8%
Namoi	138,241 ML	124,286 ML	-10.1%	15.3%	11.4%
Peel	12,625 ML	11,474 ML	-9.1%	14.1%	10.0%
Lachlan	182,100 ML	149,333 ML	-18.0%	26.4%	23.9%
Macquarie	232,545 ML	188,478 ML	-18.9%	27.8%	21.9%
Murray	1,379,454 ML	1,324,577 ML	-4.0%	7.9%	7.0%
Murrumbidgee	1,531,632 ML	1,481,294 ML	-3.3%	7.2%	6.2%
<b>MDB Valleys</b>	<b>3,836,539 ML</b>	<b>3,610,214 ML</b>	<b>-5.9%</b>	<b>15.5%</b>	<b>12.6%</b>

The 20-year rolling average is updated at each 5-year review for pricing purposes

\* IPART draft report did not pass on the volume adjustment proposed in the 2024-25 annual price review to update 20-year rolling average with the latest actual usage to FY23

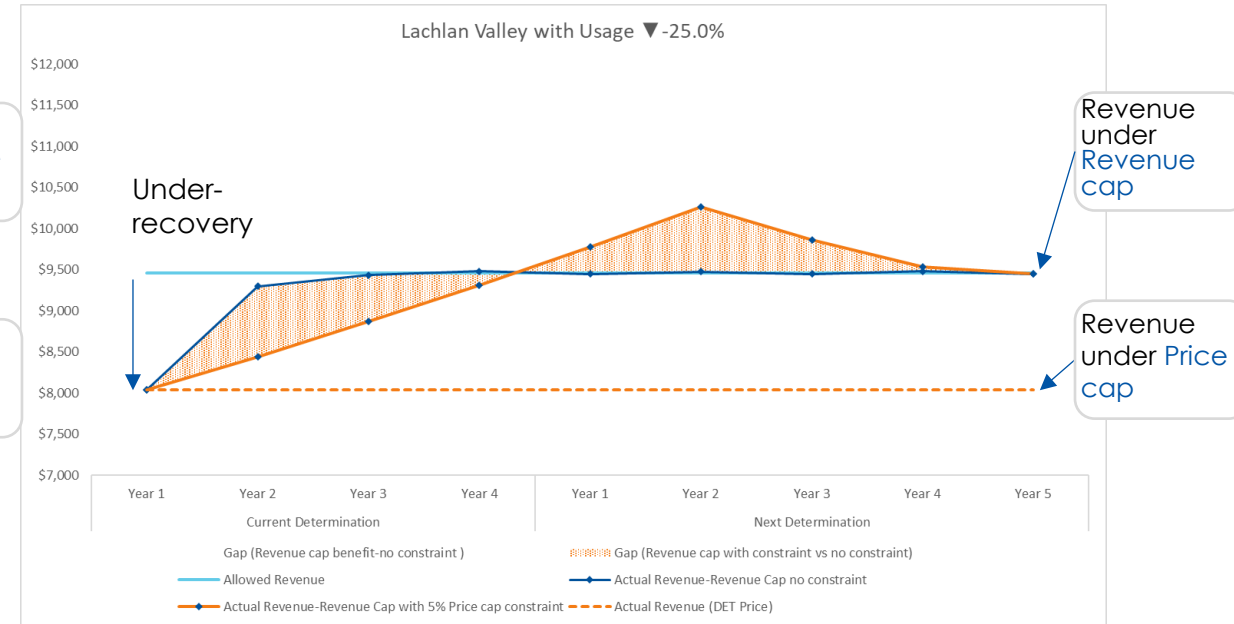
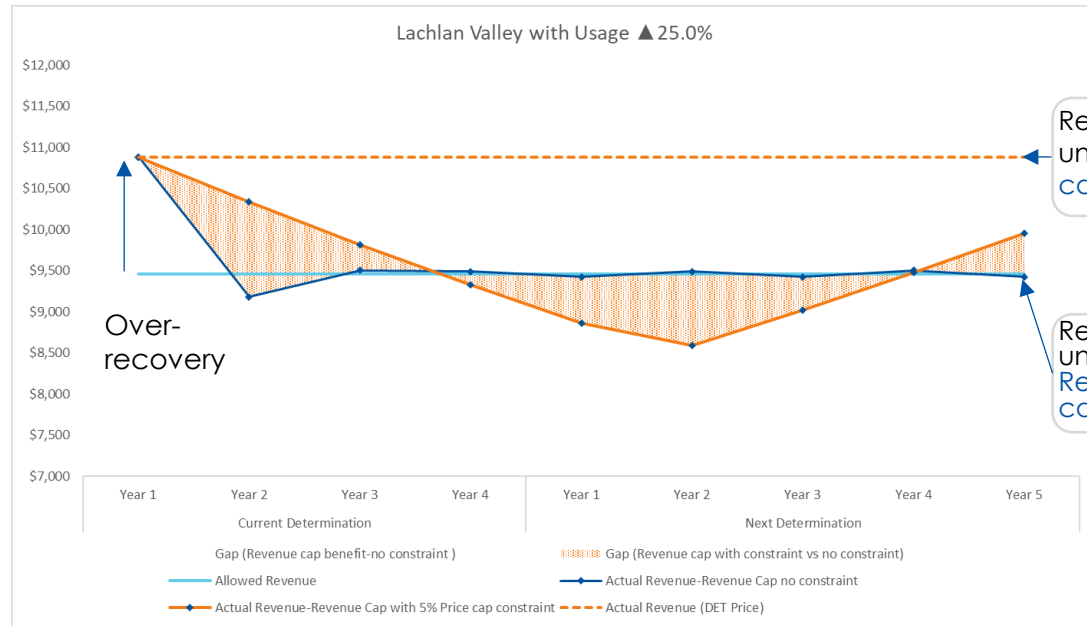
41 **WaterNSW Note:** the increase in price does not reflect an increase in the efficient costs / revenue target set by IPART as it is set to only recover the allowed variable revenue over a smaller base. Excludes Lowbidgee. Figures updated to reflect our application to IPART for FY25 MDB charges.

**We started to  
show how a  
revenue cap  
might work**

# Revenue Cap – How it works

Volume increase

Volume decrease



- This chart illustrates total revenue in a valley (Lachlan) with a scenario of actual water usage **+25%** p.a (left) and **-25%** p.a (right).
- The revenue cap is designed to ensure the IPART revenue allowance is recovered over the reg period
- The **light blue** line is the IPART revenue requirement. The **dark blue** line is the pure revenue cap, and the **orange line** is the revenue cap with an annual 5% pricing side constraint. The bars illustrate the impact of the side constraint on revenues in any year.
- With higher/lower volume usage in Year 1, customers have a higher/lower bill in that year. Adjustments are then made to customer charges in Year 2 to ensure prices target the allowed revenue. This adjustment occurs in each year as relevant until any over- or under- recovery is resolved.
- A side constraint (e.g. 5%) is applied to cap the maximum price change in any year.

# Revenue Cap – Summary of issues



A Revenue Cap ensures **only the IPART allowed revenue is recovered – no more, no less**

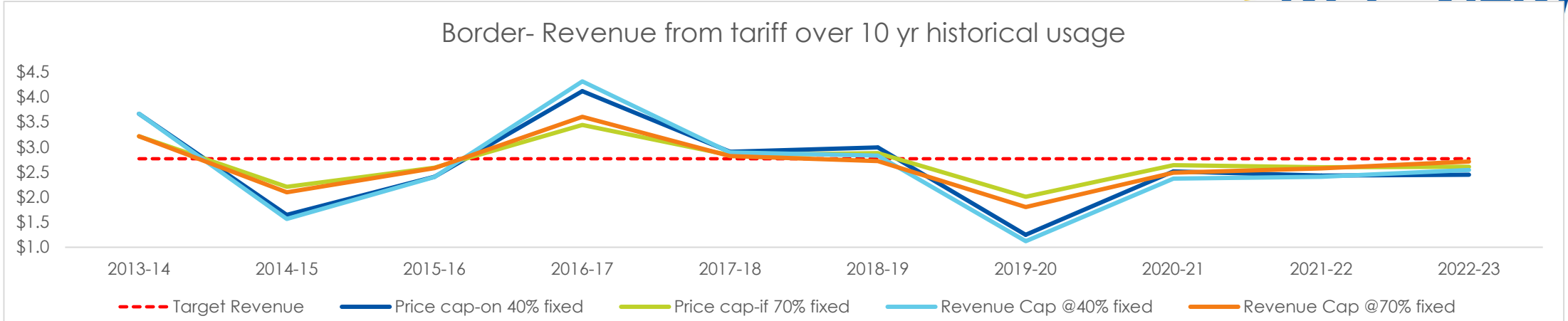
A pricing side constraint is proposed to **protect against potentially large price movements.**

This pricing side constraint could limit the bill impact in any year eg 5%, 10% etc

We note that the tighter the side pricing constraint the more likely that a large under- or over-recovery balance could result, **which is not in the long-term interests of customers.**

**We came back showing  
how the revenue cap vs  
increasing fixed charges  
would have worked for  
your valley**

# 10-year historical usage by Tariff options - Border



Border-Revenue from Tariff (Fixed and Variable) \$millions, \$2024-25	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total 10 years	Vs Target Revenue	
Target Revenue	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$27.7		
Price cap-on 40% fixed	\$3.7	\$1.6	\$2.4	\$4.1	\$2.9	\$3.0	\$1.2	\$2.5	\$2.4	\$2.4	\$26.4	\$1.3	Customers Underpaid
Price cap-if 70% fixed	\$3.2	\$2.2	\$2.6	\$3.4	\$2.8	\$2.9	\$2.0	\$2.6	\$2.6	\$2.6	\$27.0	\$0.6	Customers Underpaid
Revenue Cap @40% fixed	\$3.7	\$1.6	\$2.4	\$4.3	\$2.9	\$2.8	\$1.1	\$2.4	\$2.4	\$2.5	\$26.1	\$1.6	Customers Underpaid
Revenue Cap @70% fixed	\$3.2	\$2.1	\$2.6	\$3.6	\$2.8	\$2.7	\$1.8	\$2.5	\$2.6	\$2.7	\$26.6	\$1.1	Customers Underpaid

Proposal Volume (updated 20 yr rolling Avg)	128 GL	128 GL	128 GL	128 GL	128 GL	128 GL	128 GL	128 GL	128 GL	128 GL
Historical Volume	197 GL	42 GL	100 GL	232 GL	139 GL	146 GL	11 GL	109 GL	102 GL	104 GL
	54% Up	-67% Down	-22% Down	81% Up	8% Up	14% Up	-91% Down	-15% Down	-20% Down	-19% Down

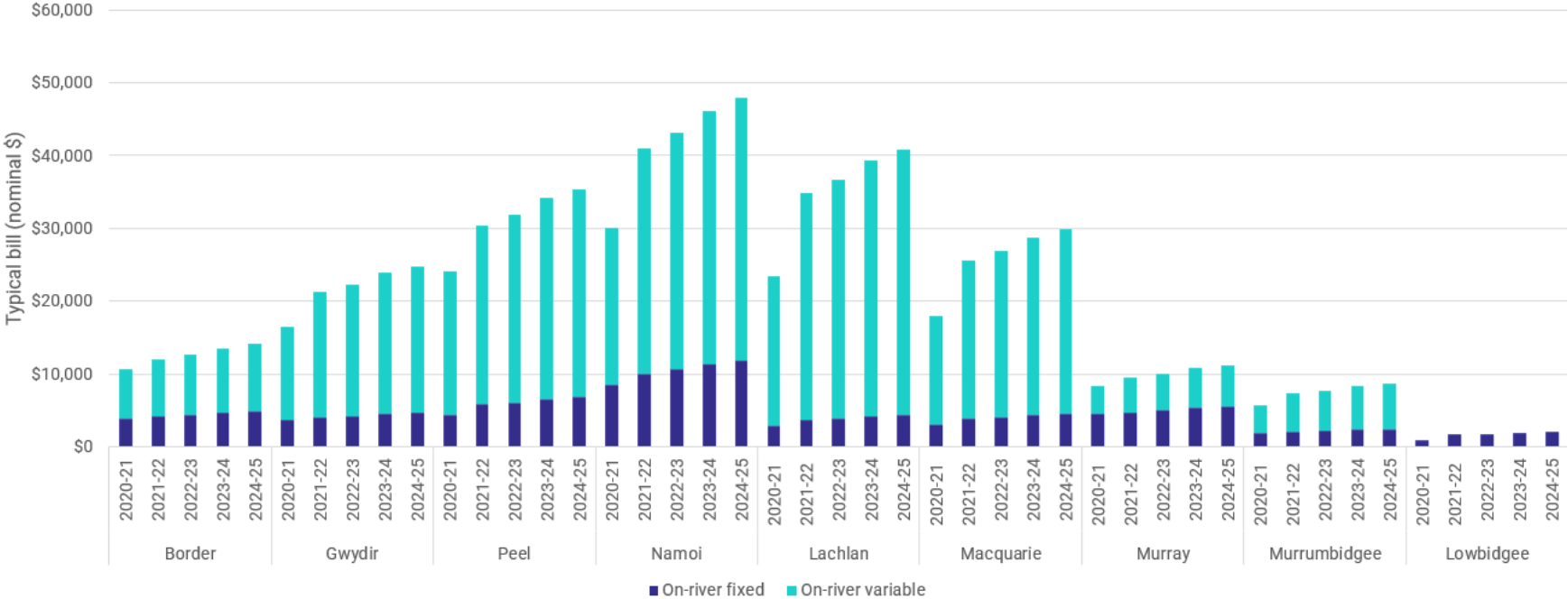
**Comments:**

- Under all scenarios customers paid less than was determined by IPART over the 10 years
- Increasing fixed rates under the price cap resulted in less variance over 10 years from the target and less year to year bill volatility
- With the exception of "2016/17 & 2022/23" bills under revenue caps were typically on par or lower than price caps
- Bills under the revenue cap scenario were the lowest during the lowest water delivery years
- The total variance after 10 years for this valley is below the target and reflects that the last 4 years were below the target assumed

# Attachment 3 – Comparison of current period (FY21 to FY25) WaterNSW bills to Sunwater bills

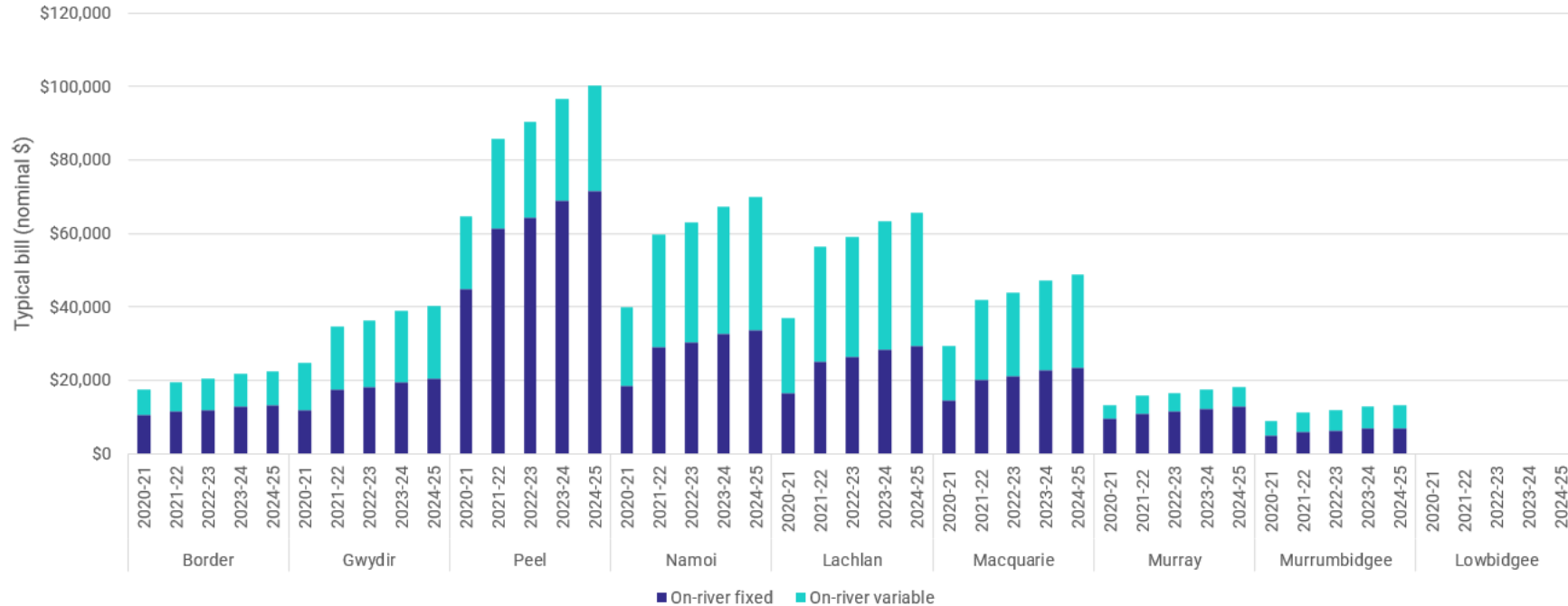
The charts below illustrate our bulk water prices inclusive of MDBA/BRC costs (1000ML of entitlement and 100% of usage):

**Typical on-river infrastructure operator bills (nominal \$) for selected non-irrigation customers General Security, 1000 ML entitlement, 100% delivered, WaterNSW, by charge component.**



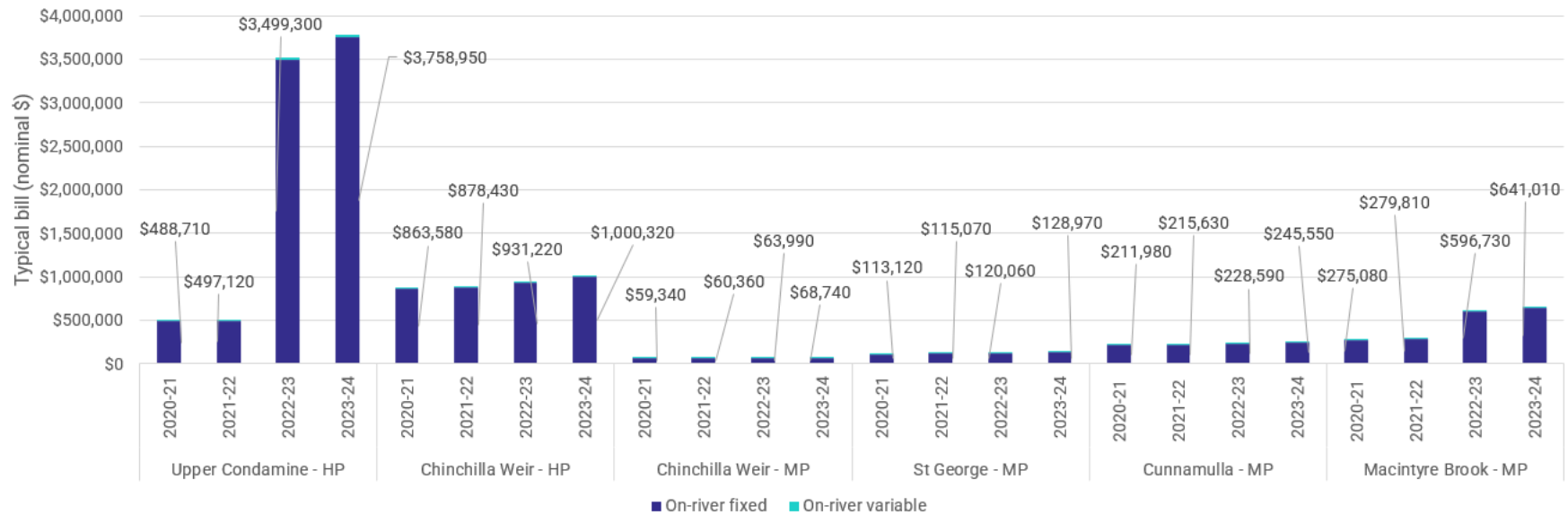


**Typical on-river infrastructure operator bills (nominal \$) for selected non-irrigation customers High Security, 1000 ML entitlement, 100% delivered, WaterNSW, by charge component.**



Below are the Sunwater Charges for non-irrigation customers (1000ML of entitlement, 100% of usage). Note HP = High Priority, MP = Medium Priority:

**Typical on-river infrastructure operator bills (nominal \$) for selected non-irrigation customers, 1000 ML entitlement, 100% delivered, Sunwater, by charge component. (This is at Upper-Bound Pricing)**



Notes:

- WaterNSW's charges are generally lower than SunWater's charges (note: WaterNSW's General Security bills reach a max of under \$50,000 per annum in the Peel, Sunwater charges vary significantly between irrigation and non-irrigation customers but most bills exceed \$100,000 per annum in Qld valleys for non-irrigation customers)
- WaterNSW's charges consists of a high portion of variable charges whereas Sunwater charges consists of a high portion of fixed charges.
- Sunwater sets the charges it levies on its non-irrigation customers, such as local government authorities and industrial users to reflect upper bound pricing which, unlike lower bound prices, means that Sunwater earns a return on and recovers the initial investment in existing assets.
- Sunwater's non-irrigation charges, are set by Sunwater with the aim of achieving full-cost recovery (including a return on the initial investment). Note the QCA's recommended charges generally aim to achieve lower bound pricing for irrigation customers. While lower bound prices are referred to as 'cost reflective', the water business is neither earning a return on, nor recovering, the initial investment in the existing assets
- In comparison, WaterNSW's charges / costs are recovered through Upper Bound pricing, however asset values are written down due to legacy concerns/issues. User cost recovery is muted because of the Government Share of Revenue and RAB.