WaterNSW submission in response to the IPART Draft Determination for Greater Sydney bulk water charges from 1 October 2025

25 August 2025

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Attachments

1. Updated corporate overhead model for proposed adjustments

Introduction

This submission provides WaterNSW's written response to the IPART 31 July 2025 draft determination for Greater Sydney bulk water charges from 1 October 2025 (draft determination). We provide comment as relevant on the Aither final expenditure review report and the AtkinsRéalis (Atkins) draft expenditure review report as it relates to digital expenditure applied to Greater Sydney.

We welcome the draft determination and IPART's move away from the May 2025 Information Paper approach to price setting and a return to applying its established building block processes for this review. While WaterNSW has some concerns with IPART's proposed operating and capital expenditure allowances as discussed below, the draft determination provides a much more robust basis to ensure our ongoing financial sustainability, which will provide more stability and positive incentives for efficient infrastructure for bulk water supply in Greater Sydney.

WaterNSW is responding to the outcomes of the draft determination and will strive to align our business to the funding envelope provided. However, we request the Tribunal reconsider the costs for new obligations, including but not limited to the *Security of Critical Infrastructure Act 2018* (SOCI Act), Work Health and Safety requirements and IPART's engagement requirements.

We also request that the Tribunal reconsider real increases in non-labour costs such as digital, land tax and insurance costs together with the impact on fixed overhead costs arising from a lower capital expenditure program. Amending the allowances for these costs in the final determination will assist in mitigating pressure on service outcomes for customers, mitigate risks and importantly provide an operating expenditure allowance closer to our long-term sustainable costs as outlined in our original proposal.

WaterNSW's response to the draft determination is based on a 3-year determination period, consistent with IPART's draft finding. While our initial preference was for a 5-year determination period, there are several risks that suggest a shorter period is more appropriate. These risks include *project risks* (Warragamba Dam Resilience timing and costings), *determination risks* (insufficient cost allowance to comply with legislative obligations and the increased risk associated with the treatment of Sydney Desalination Plant operation) and *regulatory risks* (e.g. various reviews identified by IPART such as competition for water supply in the Sydney Basin and a review of the economic regulatory framework).

On balance, these risks lend support for a shorter (i.e. 3-year) determination period.

Summary

In the draft determination, IPART proposes the following for Greater Sydney bulk water services from 1 October 2025:

- **3-year determination period** rather than the 5-year period proposed by WaterNSW
- IPART's **draft prices** for WaterNSW's Greater Sydney bulk water customers to increase by around **10.4% per year** on average, before inflation
- WaterNSW's charges to Sydney Water would represent approximately **7.7% of Sydney Water's notional revenue requirements** (around the same proportion as in the current 2020 Determination) and would account for **$103 of a typical residential customer's bill from Sydney Water** in 2025-26 (including inflation). By 2027-28, IPART's draft decisions would account for $128 of a typical residential customer's bill from Sydney Water. This would be an increase of $34 (65 cents per week) from what the same customer would have paid in 2024-25, i.e. $94

- **operating expenditure of $330.1 million** over three years that equates to an average of around $110.0 million per year, which is around 2.5% higher per year than the allowance for the base year (2023-24) in the 2020 Determination, but $20.4 million (or 15.7%) lower per year than our September 2024 proposal over three years. The proposed operating cost allowance is a $3.3 million (3%) real reduction when compared to the four-year average allowance in the current 2020-2024 determination period
- **capital expenditure of $370.5 million** over three years that is on average $123.5 million per year, which is $155.1 million per year (or 55.7%) lower than our September 2024 proposal. Key reductions from our proposed capital program include removal of funding for Warragamba E-flows (-$223 million) and Aither's lower bound for our renewals program (-$81 million) over three years
- **notional revenue requirement** (NRR) for Greater Sydney of **$824.8 million over three years** that is 15.8% lower than in WaterNSW's September 2024 proposal.

WaterNSW requests that IPART reconsider aspects of its draft determination as detailed in the body of this submission and as summarised below:

- **3-year determination period** – while WaterNSW originally proposed a 5-year determination period, there are several project, determination and regulatory risks associated with the draft determination that suggest a shorter period is more appropriate. On balance, these risks for WaterNSW and our customers over the next few years lends support for a 3-year rather than a 5-year determination period.
- **Insufficient recognition of the costs to meet regulatory obligations and real increases in non-labour costs** – WaterNSW is proposing annual operating costs of $124.2 million per year, or adjustments of $14.1 million per year compared to the operating cost outcomes from the IPART draft determination. These adjustments represent a 4.8% reduction to our originally proposed operating expenditure and a 12.8% increase to the operating expenditures contained in IPART's draft determination over three years.

  We have provided additional information in this submission to clarify the need for our proposed funding to meet our regulatory obligations and other costs. Lack of recognition of these costs and obligations is a key element of our proposal for a three-year determination period due to the financing implications of locking in an unsustainably low operating allowance for five years.
- **Overhead allocation** – we welcome IPART's request for WaterNSW to provide additional information on overhead allocations, supported by our workings and/or a model allowing IPART to fully understand and make adjustments to the allocations of overhead costs for consideration in the Final Report. WaterNSW has provided the additional requested information to IPART, which results in a reallocation of overheads in the draft determination to operating expenditure of $2.3 million over three years or **$0.8 million** per year.
- **Security service costs** - In the 2023-24 base year, the Greater Sydney direct security service costs were understated and miscoded as overhead costs, instead of direct Greater Sydney operating expenditure. Security costs fund the physical security of critical infrastructure in the Greater Sydney region (e.g. Warragamba, Shoalhaven, Nepean security runs, inquiries, and night patrols) and hence is driven by regulatory requirements. WaterNSW submits that a [redacted] base year adjustment should be included for Greater Sydney direct security service costs to ensure these costs are directly allocated to and paid for by Greater Sydney customers.
- **Insurance costs and land tax liability** – WaterNSW has identified shortcomings in the approaches applied by Aither in its final report that result in insufficient allowances to meet our future insurance costs and land tax liability. Proposed adjustments to the draft determination findings for

insurance costs would increase the regulatory allowance by **$0.4 million** per year and **$0.8 million** per year for our land tax liability.

- **Reductions to digital People costs** –IPART has adopted the Aither lower bound for digital capital expenditure of $33.5 million over three years, which is a $3 million (9%) reduction to our proposed capital expenditure, which WaterNSW considers is excessive. For digital operating expenditure, WaterNSW considers that our proposed digital people costs over three years were mistakenly omitted from the Aither analysis and need to be added to their assessment (irrespective of whether Aither proposes to not accept the costs). Correcting for this error results in an upward adjustment of **$5.4 million** per year to the IPART final determination operating expenditure allowance.
- **Reductions to software licensing costs** – WaterNSW considers that Aither's proposed reductions in software licensing costs of $3.1 million over three years ($5.09 million over five years) is excessive. Reducing software licensing by $1 million per year does not allow for the renewal of our existing software portfolio required to perform our support our core functions as an organisation. This also risks operational disruptions, outdated systems, and failure to meet regulatory compliance. Furthermore, the proposed reduction would have long-term negative consequences, ultimately costing more to resolve than maintaining the necessary budget.
- **Efficiency factor** - WaterNSW reaffirms its commitment to continuous improvement and seeking efficiencies to be passed on to its customers as demonstrated by our recent announcements. In light of the range of considerations discussed in this response, however, we consider that the more appropriate efficiency factor to be applied is **0.7% per year** rather than the 0.9% per year as recommended by IPART in the draft determination. This would be consistent with the draft decision for Sydney Water and more recently as confirmed by the RBA as the best measure of long-term efficiency in Australia. It would also, at least in part, recognise the up-front efficiency reduction applied by IPART in other parts of its decision that would need to be found by WaterNSW.
- **Infrastructure capital expenditure** - we welcome IPART's decision to reconsider Aither's recommendations on the Warragamba Dam Resilience project and to instead include our revised costs for this important project. We also note IPART's recommendation to not provide funding for the Warragamba E-flows project and that we will revisit this project at the subsequent determination. WaterNSW requests that IPART reconsider its position on the following matters:
    - The reversal of the proposed removal of $315,000 in operating expenditure per year for the E-flows project as these costs were not incorporated within our original proposal.
    - The adoption of the Aither lower bound estimate and reduction of $25 million (80%) over three years for the **Cataract Dam Safety and Upgrade project**. This project is a critical response to the dam safety risks identified that plot above the safety threshold as prescribed by Dams Safety NSW. WaterNSW requests that IPART accepts our originally proposed forecast.
    - IPART's adoption of the Aither lower bound estimate for the **Water Infrastructure Renewals Program** and the $81 million reduction (42%) to the proposed expenditure over three years results in an unacceptable risk of an incident related to safety, environmental harm or interference of supply. WaterNSW requests that IPART accepts our originally proposed forecast.
- **Stranding of past digital investment** – IPART's draft determination is to adopt the Aither and Atkins finding for a downward adjustment of **$4.0 million** for digital expenditure over the period for Greater Sydney, due to what they consider a significant reduction in benefits being delivered by WaterNSW's Water Value Added Environment (WAVE) program. This is based on the Atkins' lower

bound recommendation that strands $17 million of the project across all the three WaterNSW determinations.[1]

We request that IPART reconsiders the consultant's recommendation to write off a significant component of the past investment. In the alternative, if IPART deems that some adjustment is required, we urge IPART to adopt the consultants' upper bound ($1 million reduction) as extensive stranding of assets for the project based on an untested and unconventional approach of "total / bankable benefit" in the lower bound would necessarily create a strong disincentive to invest in future technology, to the detriment of customers and the community. It is also important to note that this investment is also centred on renewing end of life systems and that the consultants failed to consider this in their assessment of the program.

- **Form of control** – WaterNSW notes IPART's comments on not introducing a revenue cap to WaterNSW for charges to Sydney Water. WaterNSW agrees that the impacts of volume risk are more pronounced for our Rural Valleys determination; however, we maintain that volume risk is a material issue for Greater Sydney that will continue to increase as a greater proportion of the water provided to the Sydney Basin is derived from higher cost rain independent sources.

  We will continue to explore options to manage volume risk in the leadup to the subsequent determination, but in the interim seek IPART's introduction of a Demand Volatility Adjustment Mechanism (DVAM) for Greater Sydney bulk water services that operates on the same principles as the mechanisms for Sydney Water and Hunter Water.[2]

- **Increased risk with Sydney Desalination Plant (SDP) operation** – WaterNSW has concerns over IPART's approach to addressing how SDP volumes impact on the recovery of WaterNSW's efficient costs. WaterNSW fully supports the value of independent water sources and the role SDP plays in the Greater Sydney Water Strategy. However, IPART should guard against introducing mechanisms that mask the efficient costs of water infrastructure to encourage SDP supply, which could result in higher costs for customers (noting SDP's cost of supply is over 400% higher than WaterNSW's) and potentially transfer risk to WaterNSW shareholders, until a comprehensive review of the water supply in the Sydney Basin has been undertaken.

  IPART's approach is asymmetric in that it ensures SDP is not financially disadvantaged for volume variances but does not provide the same consideration to make WaterNSW financially 'whole'. We urge IPART to ensure that any allocation of risk involving SDP operations are grounded in transparent, economically efficiency principles and supported by a clear legislative mandate. In the absence of such legislative agenda and reform, introducing 'artificial' competition and revenue risk mechanisms will distort market signals, and ultimately increase costs for customers.

- **Process concerns have impacted this review** – throughout the Greater Sydney, Rural Valleys and WAMC reviews, WaterNSW has participated in three expenditure reviews. WaterNSW notes the complexity surrounding the current determinations that has limited the time available for the expenditure review consultants to fully assess WaterNSW's proposals. WaterNSW considers that this complexity and tight timelines have negatively impacted on the review outcomes and the draft expenditure allowances proposed by the consultants and as recommended by IPART in the draft

[1] -$17 million based on the lower range of future enabled benefits approach where cost = net benefits. Assuming 15 years of savings at $3.1 million p.a., the total benefit/bankable benefit ratio and further costs of $10 million (highly uncertain). Atkins suggests allowing $36.5 million under the lower range. (24% of the total costs allocated to Greater Sydney). See https://www.ipart.nsw.gov.au/documents/consultant-report/report-atkins-waternsw-rural-valleys-expenditure-review-june-2025?timeline_id=19205, page 149.

[2] IPART proposes to increase Sydney Water prices over the next five years by $317 million for the operation of the DVAM that includes a revenue adjustment of +/-5% of annual revenues.

determination. WaterNSW is committed to transparency and regulatory engagement and as such we are keen to work with IPART to implement improvements to the framework as part of any future water reform initiative.

WaterNSW's detail comments are provided in the following sections.

WaterNSW's detailed comments

1.1. Length of determination period

The length of the determination period is an important judgement for IPART as part of the determination process that is intended to balance, amongst other things, mitigating forecasting risk in the outer years with not creating unreasonable regulatory burden for customers and regulated entities through an additional (or at least an earlier) review.

In its draft determination, IPART proposes a three-year determination period on the basis that:

> *Our view is that a 3-year determination period adequately balances the benefits of reduced uncertainty about forecasts against the costs of more frequently reviewing prices. Whilst a 1- or 2-year determination would further reduce the uncertainty around forecasts, it would also add regulatory costs for both WaterNSW, other stakeholders and IPART as we would need to undertake a subsequent review sooner. In addition, a 3-year determination period will provide WaterNSW with time to improve its future operating and capital expenditure forecasts, and potentially for any changes from a broader review of WaterNSW's operating environment to take effect before we begin our next price review.*[3]

WaterNSW supports IPART's recommendation to adopt a three-year determination period.

Our initial preference for a five-year determination period was based on several factors, including aligning with the timing for the IPART review of the water and wastewater charges of our largest customer, Sydney Water. Considerable joint infrastructure planning and development occurs between WaterNSW and Sydney Water, suggesting alignment of pricing review timelines is appropriate. In addition, a five-year determination provides reasonable incentives for efficiencies over time, while minimising administrative efficiencies associated with more frequent reviews.

However, there are several risks that suggest a shorter period for Greater Sydney is more appropriate than the default position of five-years as standard in the IPART Handbook. These risks include:

- **Project risks** – primarily associated with the costs and timing of the Warragamba Dam Resilience project, where a significant portion of the costs are anticipated to be in 2029-30 and 2030-31 (years four and five, respectively).
- **Determination risks** - insufficient recognition of the costs of complying with our legislative obligations has resulted in an operating allowance that is below our forecast efficient costs. A five-year determination period would exacerbate the financial consequences of any funding shortfall. In addition, the increased risks associated with IPART's proposed treatment of Sydney Desalination Plant operation with respect to WaterNSW's ability to recover our efficient costs potentially increases risk for WaterNSW and our shareholder. A three-year determination period provides a 'real option' to assess the extent of any financial risk imposed on WaterNSW through IPART's proposed changes.
- **Regulatory risks** – IPART has suggested that several potential regulatory reviews may be initiated over the next three years, the outcomes of which may have a material impact on our Greater Sydney and overall business. For example, in addition to IPART's suggestion of a review of "WaterNSW's operating environment", IPART has previously suggested possible reviews of competition for water supply in the Sydney Basin, a review of the economic regulatory framework relevant to WaterNSW

[3] IPART *Review of prices for WaterNSW services in Greater Sydney from 1 October 2025 – Draft Report, July 2025*. Page 21.

and a WACC review. Each of these reviews would be extensive and likely take 12-24months to conduct. A five year determination period that could not be reopened for the outcomes of these, or other reviews, introduces considerable risk to WaterNSW's financeability, therefore lending support to a shorter (i.e. three-year) determination period.

On balance, these risks lend support for a shorter (i.e. 3-year) determination period.

1.2. Process issues have contributed to erroneous outcomes

1.2.1. System and process review did not appear to be incorporated

In late 2023, IPART engaged FTI Consulting (FTI) to assess WaterNSW's governance systems and processes, specifically how investment decisions are made and managed.

The review concluded that WaterNSW's systems and processes align with the expected standards and maturity for similar organisations. These findings were informed by the consultant's extensive experience across the water, energy and infrastructure sectors in the Australian and global contexts.

At the time, IPART indicated that the outcomes of the FTI review would inform its pricing proposal assessment, particularly given the constrained review timeframe of 9 months compared to the previous 12 month process.

However, the expenditure reviews do not appear to have meaningfully considered these findings. Instead, the consultants have re-examined and re-prosecuted issues that were already addressed in the FTI review, leading to inconsistent conclusions.

WaterNSW notes significant inconsistencies between the findings of IPART's 2023 system and process review conducted by FTI and the conclusions drawn in the expenditure reviews, particularly within the Atkins Rural Valleys draft report for Rural Valleys, and to a lesser extent within the Aither report.

The consultants also appear to be either unaware of, or did not have sufficient time to engage with, the range of third-party reviews that WaterNSW is subject to on an ongoing basis. Each year WaterNSW is subject to operating licence audits initiated by IPART. These audits always consider our management systems as they are a key element of the operating licence as well as a key determinant of risk to be considered in any audit program. In our recent operating licence audits, these management systems have received positive audit outcomes that appear on face value to contradict the expenditure review findings.

WaterNSW remains committed to transparency and regulatory engagement, but is concerned that the expenditure reviews have not adequately accounted for the outcomes of the prior process and have incorrectly and unreasonably placed WaterNSW in a negative light with customers regarding our systems and processes underpinning investment.

The lack of alignment between the systems and process review and expenditure review findings raises questions about the need for the early FTI review and the value of committing senior resources to a process whose findings do not appear to have been meaningfully considered.

1.2.2. IPART's use of multiple expenditure review consultants

Throughout the Greater Sydney, Rural Valleys and WAMC reviews, WaterNSW has participated in three expenditure reviews. WaterNSW notes the complexity surrounding the current determinations that has limited the time available for the expenditure review consultants to fully assess WaterNSW's proposals. WaterNSW considers that this complexity and tight timelines have negatively impacted on the review outcomes and the draft expenditure allowances proposed by the consultants and as recommended by IPART in the draft determination.

Examples of the differing approaches by the consultants and the different findings include the following:

- **Cost allocation** - unlike the 2021 Determination for Rural Valleys, where IPART appointed Atkins-Cardno to undertake a detailed review of our approach to cost allocation, there has been a lack of clarity of the terms of reference for the consultants on which firm's role it was to review our approach to cost allocation that led to duplication (if not triplication) in effort to assess the effectiveness of our approach. This appears to have led to IPART questioning the robustness of our process, even though our methodology is based on the findings from the 2021 Atkins-Cardo review. WaterNSW has now provided information to IPART that we believe will address IPART's concerns.
- **Lower bound for expenditure** – there appeared to be lack of clarity by the consultants as to how to interpret the requirement from IPART to provide a 'lower bound' for capital and operating expenditure. For instance, it was not obvious that the consultants had guidance on whether the lower bound should provide funding sufficient to meet regulatory requirements or whether it was a theoretical efficiency frontier.

  A point estimate by the consultant within the stated range would assist all parties and eliminate considerable time and effort spent on addressing lower bound alternatives that the consultants themselves may not support.
- **Efficiency of WaterNSW support costs** – WaterNSW notes that Stantec, in its review of WaterNSW's costs undertaken as part of the WAMC review, was considerably more positive and did not apply the same extreme level of operating cost reductions as the bulk water consultants as indicated below:

  > *WaterNSW's overhead expenditure has remained within the IPART allowance, being 7% lower during the current period, with additional reduction in proposed overhead expenditure by 16%, aiming for proposed corporate overheads to average 14% of revenue. Benchmarking WaterNSW with the PWC median figures for corporate overheads as a portion of OPEX is not valid, as the scope of the PWC benchmarking activity exclude billing and customer services. Irrespective, **we find that proposed overhead expenditure to NRR percentage of 14% is reasonable**.*[4] *[emphasis added]*

  and

  > *In assessing WaterNSW's proposed operating expenditure for business governance and support, we do not consider any proposed activity or expenditure to be outside of the scope of WAMC services. In assessing recommended upper and lower bound expenditure levels for the future period, with the exception of proposed digital expenditure, **we would consider the majority of proposed to be efficient corporate expenditure**.*[5] [emphasis added]

  The views from Stantec highlight that different expenditure review consultants (including FTI on our system and process review) can form different views on a business's forecast of efficient costs when examining the same or similar information. While this should not be unexpected, it highlights a conundrum for IPART when different consultants form different views on the efficiency or otherwise of our common costs that could lead to significant implications for customer outcomes, risks and our financial sustainability.

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[4] Stantec report to IPART titled Expenditure review of Water Administration Ministerial Corporation Page 87. Report-by-Stantec-Expenditure-review-of-Water-Administration-Ministerial-Corporation-May-2025.PDF

[5] Stantec report to IPART titled Expenditure review of Water Administration Ministerial Corporation Page 280.

We ask IPART to choose allowances near our proposed support and overhead costs, not Aither's lower estimate for Greater Sydney.

WaterNSW is committed to transparency and regulatory engagement and as such we are keen to work with IPART to implement improvements to the framework to apply to future determinations as part of any future water reform initiative.

1.3. Operating Expenditure

This section has been prepared in response to several issues in the Operating Cost review sections of the Aither report.

There are several reductions proposed to future operating expenditures in the draft determination that lack substantiation.

The following table summarises WaterNSW's forecast operating expenditures incorporating the proposed adjustments to IPART's draft report findings and provides the section where the proposed adjustment is discussed.

Table 1 – Greater Sydney operating expenditures – proposed adjustments to IPART's draft determination ($m, $2024-25)

	2023-24	2025-26	2026-27	2027-28	3-Year Total^^	3-Year Average
	Nominal	$2024-25	$2024-25	$2024-25	$2024-25	$2024-25
Operating expenditure	$104.5					
Non-Controllable	-$3.6	$6.3	$6.3	$6.5		
Base year adjustments	$2.8					
Baseline Controllable Opex/Step adjustments	**$103.7**	$2.3	-$1.3	-$1.0		
IPART Draft Determination		**$112.2**	**$108.7**	**$109.2**	**$330.1**	**$110.0**
WaterNSW September 2024 Pricing Proposal		$133.4	$128.1	$129.9	$391.4	$130.5
Difference		-$21.2	-$19.4	-$20.7	-$61.3	-$20.4
Non-controllable (S1.3.2)						
Shoalhaven pumping energy costs (S1.3.2.1)		$0.1	$0.1	$0.1	$0.4	$0.1
Land Tax (S1.3.2.2)	$0.7	$0.7	$0.8	$0.8	$2.3	$0.8
Base year adjustments (S1.3.3)						
External insurance recoveries revenue (S1.3.3.2)	$1.0	$1.0	$1.0	$1.0	$2.9	$1.0
Defined Benefit Superannuation (S1.3.3.3)	$0.2	$0.2	$0.2	$0.2	$0.5	$0.2
Catchment audit costs (S1.3.3.4)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Misallocated security service costs (S1.3.3.5)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Stormwater modelling (S1.3.3.6)	$0.6	$0.6	$0.6	$0.6	$1.8	$0.6
Digital People costs (S1.3.3.7.1)	$5.4	$5.4	$5.4	$5.4	$16.3	$5.4
Trend adjustments (S1.3.4)						
Insurance (S1.3.4.1)		$0.3	$0.4	$0.4	$1.2	$0.4
Efficiencies (S1.3.4.2)		$0.2	$0.2	$0.2	$0.5	$0.2
Step adjustments (S1.3.5)						
Regulatory submission costs (S1.3.5.1)		$0.1	$0.1	$0.4	$0.6	$0.2
Adjustment for Warragamba E-flows (S1.3.5.2)		$0.3	$0.3	$0.3	$0.9	$0.3
Adjustment for updated vacancies (1.3.5.3)		$0.9	$0.9	$0.9	$2.7	$0.9
Digital software licencing costs (S1.3.3.7.2)		$1.0	$1.0	$1.0	$3.1	$1.0
Overhead allocation adjustments (S1.3.5.4)		-$0.9	$1.5	$1.7	$2.3	$0.8
Total uplifts^		*$12.6*	*$14.9*	*$15.2*	*$42.7*	*$14.2*
Total adjusted operating expenditure		**$124.9**	**$123.6**	**$124.4**	**$372.9**	**$124.3**

* Totals may not add due to rounding.
^ Includes base, trend and step adjustments.
^^ Three year total and average include base year adjustment

As illustrated in Table 1 above, WaterNSW is proposing annual operating costs of **$124.3 million** per year on average, or adjustments of **$14.2 million per year** compared to the operating cost outcomes from the IPART draft determination. These adjustments represent a 4.7% reduction to our originally proposed operating expenditure, and a 13% increase to the operating expenditures contained in IPART's draft determination over three years. The adjustments highlighted in the table above are discussed in the following sections.

The following figure illustrates the actual, proposed and allowed operating expenditures for Greater Sydney over time. As illustrated below, WaterNSW's proposed adjustments to the draft determination finding are contained in this response, which support an average annual operating expenditure of $124 million per year over the three years (light blue dotted line).

We wish to highlight that the average of IPART's draft determination finding ($110 million per year as shown in the yellow dotted line below) is **$5 million per year (4.3%) below** the average actual operating expenditure over the past four years (dark blue dotted line) and is $3 million per year below the average allowance from the past four years (green dotted line), which WaterNSW considers is below our long-term sustainable costs and will lead to pressure on customer service standards and introduce operational and compliance risks.

Figure 1 – Greater Sydney operating expenditure actuals, forecasts and allowances over time ($m, $2024-25)

We request that IPART reconsider several elements of its operating expenditure allowance from the draft determination as detailed in the following sections.

Our focus for the remainder of this section is to provide comment on the proposed adjustments in Table 1 where we request that IPART revisits in preparing the final determination on efficient operating expenditures for the 2026 determination period.

1.3.1. Base Year Assumption

WaterNSW submits that Aither did not attempt to work through the required adjustments when selecting 2023-24 as the preferred base year and we note several adjustments would be required to ensure 2023-24 is normalised to ensure it is appropriate for assessing future investment. We note that it has not been possible to undertake a full analysis of the consultants' proposed new base year in the limited consultation process for the draft determination. We believe there is sufficient detail in our pricing proposal to enable IPART to determine the efficient operating costs allowance even if the base year is 2022-23 as opposed to 2023-24. However we have attempted to provide analysis using 2023-24 as the base year, albeit the analysis is limited due to time constraints.

WaterNSW does not accept the consultants' criticism that WaterNSW's use of 2022-23 as the base year instead of 2023-24 is misaligned to IPART's Handbook. According to the Handbook, baseline operating expenditure should represent WaterNSW's efficient recurrent controllable operating expenditure in the penultimate year of the current determination period. The Handbook also states that the base year should have a complete 12 months of data, to provide the most accurate reflection of the business's expenditure. Based on this guidance within the Handbook, WaterNSW adopted 2022-23 as its base year as it was the most recent year where audited information was available. There would have been insufficient time available to finalise our proposal had we waited until June 2024 given the assurance processes and the need to consult with customers and stakeholders on the proposal.

In any case, we consider that if the necessary adjustments had been made to the choice of base year, whether that is 2022-23 or 2023-24, there would be a negligible impact to the proposed operating expenditure forecasts for the 2026 determination period. We note that IPART's Guidelines explicitly allow for different forecasting methods. The guidelines encourage utilities to tailor their approach to the nature of the expenditure. WaterNSW's use of bottom-up forecasting for some cost items aligns with this principle:

> *The business may also wish to provide separate forecasts for particular cost items where the business expects to see significant real change in input prices over the forward determination period, such as for the cost of insurance of dams or the cost of grid electricity*[6]

We note that we have taken this feedback regarding the choice of base year for the BTS operating expenditures on board and can confirm it has informed our choice of base year for our upcoming Wentworth to Broken Hill Pipeline pricing proposal to be lodged with IPART in September 2025.

1.3.2. Non controllable costs in the base year

In the draft determination, the 2023-24 base year non-controllable costs, comprising WAMC licence fees, bulk water purchases for the Fish River Scheme and the minor fixed energy costs for Shoalhaven pumping, were excluded from Base-Trend-Step analysis. Please note that the actual 2023-24 base year WAMC licence fees reported in the AIR/SIR provided with our proposal were understated due to intercompany accounting elimination [7] which should have been reversed for regulatory reporting purposes (see file Appendix 5 - WaterNSW (Greater Sydney) Annu~eturn (AIR SIR) 2024 PROTECTED - to IPART, tab Opex, T86).

For the period 2025-26 to 2027-28, the bulk water purchases for the Fish River Scheme and the WAMC licence fees were allowed using a bottom-up calculation. The WAMC licence fees were calculated using WaterNSW's WAMC entitlements and usage forecast. WaterNSW supports this approach as the actual 2023-24 costs were understated due to the accounting elimination and WaterNSW is expected to incur additional WAMC licence cost increases based on the upcoming WAMC 2025 Determination; however, we note as discussed in the section below that the minor fixed energy costs for Shoalhaven pumping were not included in the draft determination.

1.3.2.1. Shoalhaven fixed energy costs

WaterNSW submits that the fixed energy costs of $118,000 per annum should be included in the proposal period, as outlined in our pricing proposal as the requirement to maintain the Shoalhaven system is a regulatory requirement outlined in the water sharing plan. These fixed energy costs include minor usage at the Kangaroo Valley township[8], and fixed network service charges levied by Endeavour Energy which do not appear to be included in the Shoalhaven transfers pass through mechanism (which is based only on the variable costs per ML pumped under the Shoalhaven transfers triggered under the water sharing plan).

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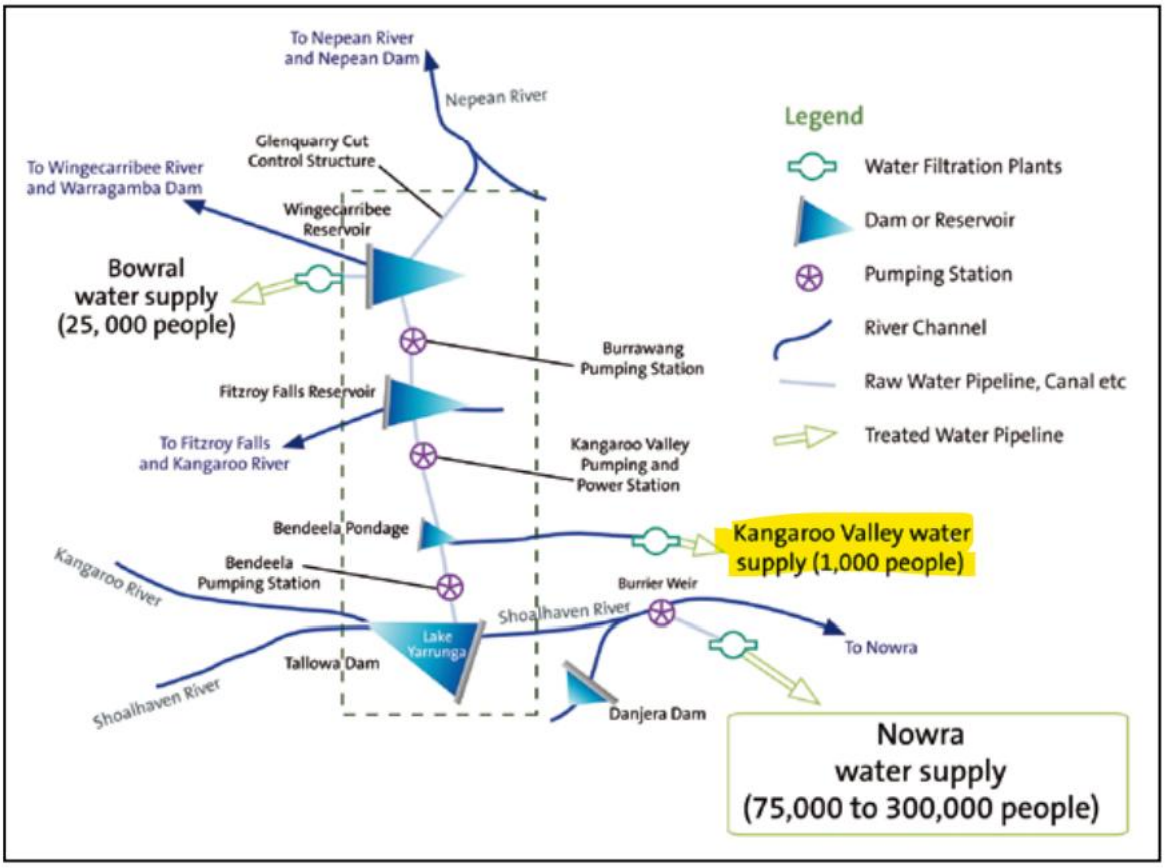
[6] Page 42; https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Handbook-Water-regulation-July-2023-V2.PDF

[7] A portion of WAMC licence fees under RRA is deemed intercompany transactions between WaterNSW Greater Sydney and WAMC business. For consolidated financial reporting, this intercompany amount is eliminated. However, for regulatory reporting purposes, this elimination should be reversed to ensure WaterNSW is fully funded for the costs associated with WAMC licence fees.

[8] Kangaroo Valley is supplied with water from Bendeela Pondage near Tallowa Dam. See Figure 1.

Figure 2 – Kangaroo Valley water supply ~1000 people



1.3.2.2. Land tax

In the draft determination, IPART reduced WaterNSW's land tax liability proposal by **$3.5 million (15%)** over three years. IPART adopted Aither's recommendation on land tax to account for the change from using 2022-23 to 2023-24 for the base year. IPART indicated the following:

> *WaterNSW proposed an escalation factor of 8.4% per year for land tax based on a JLL land tax report produced by WaterNSW. Aither agreed with the proposed approach but deflated this using an inflation estimate of 2.5% per year for a real escalation rate of 5.7% per year.*[9]

Aither in its final report calculated its recommendation for land tax costs over the 2026 determination period based on an assessment of a base year adjustment and trend adjustments. Aither proposed an adjusted base year value of $6.134 million, which is the 2022-23 tax incurred value adjusted by the nominal escalation factor of 8.4% as stated below:

> *As noted previously, the recommendation to adopt 2023-24 as the base year impacts the subsequent adjustments proposed by WaterNSW. In reviewing the detailed dataset from WaterNSW, the land tax incurred for 2023-24 was $5.66 million which was less than the $6.08 million in 2022-23. It is not clear why there was a reduction in 2023-24.*

[9] IPART *Review of prices for WaterNSW services in Greater Sydney from 1 October 2025 – Draft Report, July 2025*. Page 40.

Applying the 8.4 per cent increase (which includes inflation, see section 3.4.43.4.4) which was recommended by JLL to the 2023-24 land tax cost equates to an adjustment of $475,469 (total expenditure of $6.134 million). We recommend that this value is the adjustment for land tax to the base operating expenditure.[10]

Aither stated the following with respect to the trend assessment for land tax over the next five years to be applied to the base year adjustment:

WaterNSW proposed an 8.4 per cent escalation rate for land tax costs across the upcoming regulatory period. This was based on a JLL land tax report that was produced for WaterNSW. During the review, WaterNSW noted that the JLL land tax report that the trend factor is based on was undertaken in nominal terms and therefore the 8.4 per cent from the report includes inflation. Given this, we recommend adjusting the escalation factor to ensure it is in real terms rather than nominal.[11]

WaterNSW acknowledges that the proposed annual increase as assessed by JLL of 8.37%, when deflated by CPI assuming 2.5% results in the 5.73% as outlined in the Aither report. We note that, under IPART's real building block framework, this is an appropriate adjustment as CPI is added to the price path each year of the determination period so that the land tax annual adjustment of 8.37% per year is ultimately achieved (assuming CPI of 2.5%).

The following table from the Aither final report sets out the Aither recommended land tax allowance based on a base adjustment of $6,134 (in $000s) that is applied with a 5.73% trend adjustment added each year as discussed above.

Figure 3 – Reproduced Table 27 from Aither Report re Land Tax

Table 27 Recommend trend values for land tax ('000s)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Base land tax	6,134					
Real trend escalation (%)		5.73	5.73	5.73	5.73	5.73
Recommended land tax		6,485	6,857	7,249	7,665	8,104
Recommended value incremental from base		**351**	**723**	**1,115**	**1,531**	**1,969**

Note: 2024-25 is the recommended base expenditure for land tax based on recommendation in section 3.3.23.3.2.

We note that Aither's assessment of our land tax liability is a simplistic approach that does not attempt to assess a reasonable land tax cost that mirrors the NSW Valuer General's methodology. Rather, it is an extrapolation of the BTS framework where our 2025-26 liabilities (and beyond) are based on our actual 2022-23 or 2023-24 land tax provisions adjusted for a trend analysis.

WaterNSW submits that Aither's interpretation that the operating expenditure in the base year will meet an existing regulatory requirement is inherently flawed. This overlooks the dynamic nature of regulatory compliance. In the case of land tax, it is important to note that the base year (2023-24) may not fully capture

10 Aither Final Report, page 41.

11 IPART *Review of prices for WaterNSW services in Greater Sydney from 1 October 2025 – Draft Report, July 2025*. Page 51.

the costs associated with land tax activities, particularly if they are expected to increase in future years (beyond the trend estimates). For example:

- We expected that all WAMC land transfers would be completed by 1 January 2025. Therefore, the impact of this land transfer is not included in the historic calculations (noting this is not a material issue for Greater Sydney).
- Some land has not been valued by the Valuer General - the JLL analysis assumed this valuation will apply from 1 January 2025, and hence this estimate is not included in the historical calculations. The Valuer General has already commenced this valuation process, including backdating valuations for up to 5 years. Hence, it is important to note that the historic estimates will not be representative of future expected land tax liabilities.

We note that IPART's guidelines explicitly allow for different forecasting methods. The guidelines encourage utilities to tailor their approach to the nature of the expenditure. WaterNSW's use of bottom-up forecasting for some cost items aligns with this principle:

> *The business may also wish to provide separate forecasts for particular cost items where the business expects to see significant real change in input prices over the forward determination period, such as for the cost of insurance of dams or the cost of grid electricity.*

In reviewing the consultant's assessment, it has become apparent that the BTS framework is not well suited to forecasting future tax liabilities based on a prior year's provision and that a much more accurate approach is to base future tax liabilities on a valuation of actual land parcels and to then apply the Valuer General's assessment approach. The JLL approach does exactly that.

We note that Aither would not be reasonably expected to undertake a similar exercise as JLL, given the number of land parcels and the specialist skills and resources required to undertake this assessment and as such IPART should not place much weighting on the Aither analysis on land tax when a more accurate expert assessment is available.

The JLL advice as outlined in the report provided to Aither and IPART[12] outlines the following methodology:

1. Determine all properties to be considered for land tax estimates
2. Undertake updated land tax estimate
3. Estimate land values of land currently not valued by the Valuer General but that WaterNSW expects Revenue NSW to request the Valuer General to specifically value
4. Analyse historic growth of land tax liability estimates
5. Assess opportunities for objections on land values

JLL engaged with Property NSW and the NSW Department of Planning and Environment to provide a complete search of all properties owned by WaterNSW and all additional properties considered to be under WaterNSW's ownership but currently under another entity's name (e.g. previous transfers of land from other former NSW government departments).

Using the returned Valuer General dataset for both entity names and lot information, JLL collated and analysed both data sets. This led to an assessment of land values by entity for WaterNSW and for each of the four WaterNSW determinations - this response focusses on Greater Sydney results. We note that 'Non-

[12] JLL report provided in response to RFI Number SA-52 as part of the expenditure review.

Val' properties are a small percentage of the land values in Greater Sydney and are not considered further in this response.

Given land tax in NSW is based on the average land value of the previous three land value years, JLL provided taxable land values for Greater Sydney that increase from $385,088,756 for calendar year 2026 to $531,125,125,473 for calendar year $531,125,473.[13]

JLL advise that the NSW Valuer General provides historic land value growth for a selection of properties and benchmarks this for primary production and land value growth, with compound annual growth rates (CAGR) as shown below:

- Long-term CAGR (27 years): 8.37%
- Recent-term CAGR (10 years) 13.69%

JLL indicates that they have compared both of the above growth rates to the portfolio growth rate for all rateable properties (excluding current 'Non-Val' properties). The growth rate across WaterNSW's portfolio for land values between 2013 to 2022 is 11.73% per year (CAGR).

JLL also indicates that for the purposes of estimating land values for forecasting purposes, it adopted the long-term growth rate for *rural* land based on the Valuer General's benchmark (i.e. 8.37%) and applied this same rate for the whole portfolio to forecast land values and land tax liability for 2025-26 to 2029-30. WaterNSW considers that this forecast rate is conservative for Greater Sydney, where higher land values have occurred over the recent- and longer-terms and arguably a higher CAGR may be appropriate (noting we have accepted the JLL findings on this matter).

As noted by JLL, there has been a significant increase in the land value of the portfolio recently, increasing by 17% in 2021, 30% in 2022 and a 22% increase between 2022 and 2023. It is therefore not surprising that land tax was proposed to increase by of 20.7% in WaterNSW's Greater Sydney land tax proposal from 2023-24 to 2024-25 as opposed to the long-term CAGR of 8.37% used by Aither in its recommendation. WaterNSW notes that JLL projected future land values using the growth rate of 8.37%, but this takes three years to fully appear in forecasts - i.e. due to 3 year averaging of land values for land tax purposes.

Using the taxable land values, JLL have applied a standard 2% land tax across the portfolio based on the Valuer General's standard methodology, as summarised below:

Figure 4 – JLL forecast land tax

Table: Forecast Land Tax Total by Valley and Year, 2026-2030 (Calendar Year)

Valley Groups	2025	2026	2027	2028	2029	2030
Greater Sydney Total	$7,106,925	$7,701,775	$8,346,414	$9,045,009	$9,802,076	$10,622,509
Rural Valleys Total	$5,301,524	$5,745,262	$6,226,140	$6,747,268	$7,312,014	$7,924,030
WAMC	$1,346,572	$1,459,280	$1,581,422	$1,713,787	$1,857,230	$2,012,681
Broken Hill	$638	$691	$749	$812	$880	$953
Total	$13,755,659	$14,907,008	$16,154,724	$17,506,875	$18,972,200	$20,560,173

Source: JLL

JLL then calculated land tax for the forecast properties by financial years as reproduced below.

Figure 5 – JLL forecast land tax for the forecast properties

Table: Forecast Land Tax Total by Valley and Year, FY26-FY30 (Financial Year)

Valley Groups	FY26	FY27	FY28	FY29	FY30
Greater Sydney Total	$7,404,350	$8,024,094	$8,695,711	$9,423,542	$10,212,293
Rural Valleys Total	$5,523,393	$5,985,701	$6,486,704	$7,029,641	$7,618,022
WAMC	$1,402,926	$1,520,351	$1,647,604	$1,785,508	$1,934,956
Broken Hill	$664	$720	$780	$846	$916
Total	$14,331,333	$15,530,866	$16,830,800	$18,239,537	$19,766,187

Source: JLL

[13] JLL report provided in response to RFI Number SA-52 as part of the expenditure review. Page 33.

The figures above contain the proposed land tax amounts contained in WaterNSW's September 2024 proposal for Greater Sydney.

The analysis provided above highlights that the establishment of our expected tax liability over the 2026 determination period for Greater Sydney is based on a robust forecasting methodology that derives an assessment of land values from property experts that applies the Valuer General's approach to calculating land tax based on a three-year land valuation and a 2% land tax rate.

This approach is much more likely to provide a reasonable forecast of our tax liabilities for Greater Sydney for the next determination period than the extrapolation of the BTS methodology applied by Aither based on an adjusted base year approach.

WaterNSW therefore requests that the Tribunal reconsider its approach to forecasting land tax for the purposes of the upcoming Greater Sydney determination and that it adopts WaterNSW's proposed land tax liabilities as outlined in the JLL report, with an adjustment to the annual CAGR to adjust for CPI as discussed above from 2025-26.

The following table summarises our proposed land tax liability from our original submission, IPART's draft determination and an adjusted forecast from WaterNSW for the trend using an annual growth rate that excludes inflation.

Table 2– Proposed and allowed land tax liabilities ($2024-25, $000s)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total (5 yr)	Total (3 yr)
WaterNSW proposal	**$7,404**	**$8,024**	**$8,696**	**$9,424**	**$10,212**	**$43,760**	**$24,124**
Base year*	$6,832	$7,404	$8,024	$8,696	$9,424	$40,380	$22,261
Trend^	$572	$620	$672	$728	$789	$3,380	$1,863
IPART draft determination	**$6,485**	**$6,857**	**$7,249**	**$7,665**	**$8,104**	**$36,360**	**$20,592**
Base year*	$6,134	$6,485	$6,857	$7,249	$7,665	$34,391	$19,476
Trend^^	$351	$371	$393	$415	$439	$1,969	$1,115
WaterNSW adj proposal	**$7,224**	**$7,637**	**$8,075**	**$8,537**	**$9,026**	**$40,499**	**$22,936**
Base year*	$6,832	$7,224	$7,637	$8,075	$8,537	$38,306	$21,694
Trend^^	$391	$414	$437	$462	$489	$2,194	$1,242
Change vs IPART Draft Det							
WaterNSW adj proposal change	***$738***	***$781***	***$825***	***$873***	***$923***	***$4,139***	***$2,344***

* Base year adjustment shown in 2025-26, with future years showing the previous year's total land tax liability on which the trend adjustment is calculated.
^ Assumes annual adjustment of 8.37%
^^ Assumes annual adjustment of 8.37% deflated by 2.5% = 5.73%

By making the adjustments as discussed above and illustrated in the table above, WaterNSW requests that the land tax liability from the draft determination is increased by **$0.781 million per year** on average over the three-year determination period ($2.344 million over three years) to incorporate the JLL findings.

On a separate matter, in its Draft Determination IPART applied a 0.9% productivity factor to total controllable operating expenditure, which includes land tax. Notwithstanding our view that the 0.9% productivity factor is too high, WaterNSW considers that this productivity factor should not apply to land tax, given the uncontrollable nature of this expenditure and that the productivity factor be excluded from land tax.

The treatment of land tax as an uncontrollable expenditure item appears to be consistent with the recent IPART Draft Decision on Sydney Water prices 2025-2030 (footnote c page 45), where licence fees, bulk water fees and land tax are considered uncontrollable costs by both IPART and Atkins. This means that land tax should not be subject to the base trend step methodology and the forecast future costs should be assessed on their merits.

1.3.3. Base year adjustments

1.3.3.1. Operating model uplift

Aither, in its final report, stated the following regarding any uplift to the base year for the operating model:

> *This approach results in a recommended adjustment to the base operating expenditure of $3.740 million for the new operating model. As discussed, this adjustment is rather arbitrary and has been developed in a way to provide a range for IPART that would result in the new operating model not costing more than the efficiencies being recommended for WaterNSW.*[14]

WaterNSW is concerned with Aither's proposed approach to 'operating model' costs and the "rather arbitrary" reductions. In any case, we acknowledge that Aither did recommend an uplift for resourcing required to meet regulatory obligations, but we question the relevance of restricting the allowance for the costs to meet our regulatory obligations with an (at least in part) exogenous productivity assessment.

WaterNSW is responding to the outcomes of the draft determination operating expenditure outcomes and will be aiming to align our business to the funding envelope provided. We request the Tribunal reconsider the costs for new obligations, including but not limited to the *Security of Critical Infrastructure Act 2018* (SOCI Act), Work Health and Safety Act, Privacy Act (including data management) and IPART's engagement requirements in the final determination to help mitigate pressure on service outcomes and increased operational and regulatory risks by providing an allowance closer to our proposed amounts and closer to our long-term sustainable costs.

1.3.3.2. External insurance recoveries revenue in base year

In our 2024 pricing proposal, WaterNSW excluded one-off flood rectification expenditures from the 2022–23 base year, as these costs were funded through external insurance recoveries in line with the BTS approach. However, IPART has adopted the 2023–24 base year without adjusting for one-off items such as flood-related costs and associated revenue.

WaterNSW has reviewed the 2023–24 base year and identified that IPART did not remove the external recovery revenue linked to the flood rectification works incurred in 2022–23. This oversight is illustrated in the table below.

[14] Aither final report, page 43.

WaterNSW submits that a positive adjustment of **$954,465** needs to be made to the 2023-24 base year to exclude the external insurance revenue, ensuring consistency with the treatment of one-off expenditures as outlined in our pricing proposal.

Table 3 – Adjustment to be unwound in 2023-24 for external flood cost recovery ($2023-24)

Net of insurance recovery	Flood operations
Greater Sydney	-$954,465
Rural Valleys	-$716,526
WAMC	-$290,761
Total	-$1,961,752

Source: RFI SA-59, Detailed BTS, tab Flood damage.

1.3.3.3. Defined Benefit Superannuation

Defined benefit superannuation costs represent a legacy employee obligation that WaterNSW continues to carry. WaterNSW provided information on how it calculated changes in the provisions for defined benefit superannuation. IPART stated in the draft determination that it was not possible to understand the breakdown of the cost impact across the two years. WaterNSW hopes to clear up any misunderstanding on this matter.

WaterNSW has separately provided advice from State Super (see below) that should clarify that the increase is a one-year rather than a two-year increase. This would have the effect of increasing the recommended base year allowance from $150,591 to our originally proposed $301,181 as the increase would apply over two years. We therefore recommend that IPART accept our originally proposed increase of $301,181 by increasing the base adjustment by **$150,591**.

Figure 6 – Advice from State Super regarding identifying cost increase applicable over two years

Review of Employer Funding Plan

The Scheme Actuary completed its annual review of the Employer's funding position and contribution arrangements as at 30 June 2023.

Based on this review, the Scheme Actuary has recommended that the current contributions for the Employer should increase to $4,063,140 per annum (from the current level of $3,429,372 per annum).

This contribution covers the cost of both the accrual of new defined benefits for current employee members each year and the Net Past Service Unfunded Position over the next ten (10) year period from 1 July 2024.

Key Assumptions

Please note the Scheme Actuary has used the following key economic assumptions during their review:

Assumption	30 June 2023
CPI	3.50% for FY2024 3.0% for FY2025 2.5% p.a. thereafter
Salary inflation	4.45% for FY2024 2.95% for FY2025 2.74% for FY2026 3.2% p.a. thereafter
Discount rate	6.2% pa (non-pensioner); 7.0% pa (pensioner)

Source: Annual review of WaterNSW's State Superannuation Schemes (D33000)

Table 4 4 – Required adjustment to proposed superannuation costs ($2024-25)

	Contributions
2023-24	$3,429,372
2024-25	$4,063,000
WaterNSW Step change	**$633,628**
Split by Determination	
Greater Sydney	$301,181
Rural Valleys	$233,617
WAMC	$98,830
	$633,628

Source: RFI SA-59, Detailed BTS.xlsx, tab Defined Benefit

1.3.3.4. Catchment audit costs

In Table 4.5 of the IPART Draft Determination, IPART states that it allowed a step increase of $3.9 million over the 3-year determination period for safety-related expenditure (i.e. the Crane Safety and Electrical Safety Program). However, we note that the $3.9 million step increase also includes a step reduction in expenditure on catchment audit costs as per Table 12 of the Aither expenditure review report.

Under the *WaterNSW Act*, an independent audit of the health of the declared Sydney catchment area must be conducted at least once every three years. [15]The resulting audit report is provided to the Minister responsible for WaterNSW. The most recent audit was undertaken in the 2022-23 financial year, during which WaterNSW incurred mandatory audit costs of $311,828. Accordingly, WaterNSW proposed a step reduction in forward expenditures (see Table 12) to ensure adequate funding for future audits in 2025-26 and 2028-29.

Figure 7 – Reproduced table from Aither Report Compliance

Table 12 Greater Sydney Compliance uplift expenditure step changes ($2024-25)

OPEX steps	2025-26	2026-27	2027-28	2028-29	2029-30
Crane Safety Improvement	663,930	540,850	519,770	519,770	519,770
Electrical Safety Program	1,000,000	1,200,000	600,000	350,000	250,000
Regulatory Costs	10,789	10,341	10,343	10,814	11,166
Catchment Audit	(11,828)	(311,828)	(311,828)	(11,828)	(311,828)
Total	**1,662,891**	**1,439,363**	818,285	**868,756**	**469,108**

However, IPART has adopted a 2023-24 base year and applied the same expenditure reductions outlined in our pricing proposal. This approach inadvertently creates a funding shortfall for WaterNSW's mandatory

[15] s42, https://www.austlii.edu.au/cgi-bin/viewdoc/au/legis/nsw/consol_act/wna2014136/s42.html

catchment audit obligations. The table below outlines the cost of these audits under the original submission and demonstrates that, under the 2023-24 base year, WaterNSW is not funded for this function.

We would like to advise that the cost of the catchment audit will likely increase from approximately $300,000 per audit as per our original submission [redacted]

Table 5 – Required compliance audit costs ($2024-25)

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Catchment Audit – Original Submission	$311,828			$300,000			$300,000	
Catchment Audit – Revised Cost August 2025	$311,828			[redacted]			[redacted]	

Source: RFI SA-59, Detailed BTS, tab Regulatory Costs, row 68.

We therefore request that IPART reinstate the catchment audit costs for the forecast period using the revised cost forecast. As shown in the table above, WaterNSW [redacted] in both 2025-26 and 2028-29 to meet its statutory audit obligations under the *WaterNSW Act*, as required on behalf of the Minister.

1.3.3.5. Misallocated security service costs

In the 2023-24 base year, the Greater Sydney direct security service costs were understated and miscoded as overhead costs, instead of direct Greater Sydney operating expenditure. We note that Greater Sydney security costs were directly allocated to the Greater Sydney Determination in the 2022-23 actuals, and in the pricing proposal submission for the proposal period.

The Greater Sydney security cost allocation is shown below, where it is evident that the 2023-24 financial year is understated significantly compared to the 2022-23 financial year and the 2025-26 to 2029-30 financial years.

Table 6 – Security service costs ($000s)

	2022-23	2023-24	2025-26	2026-27	2027-28	2028-29	2029-30
	Nominal	Nominal	$2024-25	$2024-25	$2024-25	$2024-25	$2024-25
Security Service costs	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Source: RFI SA-59, Detailed BTS, tab GS Opex, row 17.

Security costs fund the physical security of critical infrastructure in the Greater Sydney region (e.g. Warragamba, Shoalhaven, Nepean security runs, inquiries, and night patrols) and hence is driven by regulatory requirements. WaterNSW submits that [redacted] of base year adjustment should be included for Greater Sydney direct security service costs as per the table below to ensure Greater Sydney security cost are directly allocated and paid for by Greater Sydney customers.

Table 7 – Reinstated Security service costs ($000s)

	2023-24
Miscoded to Overhead (a) Total GS Security Costs	[redacted]
Overhead Capitalisation	[redacted]
Net overhead allocated to Greater Sydney (b)	[redacted]
Gap ($2023-24) (c) = (a) - (b)	[redacted]
Gap ($2024-25) @ 2.1%	[redacted]

The [redacted] has been derived by estimating the percentage of the security cost already allocated to Greater Sydney via the overhead allocation [redacted], and then reversing the miscoding of Greater Sydney security cost allocated to the WAMC and Rural Valley Determination via overhead, resulting in a difference of [redacted] that we suggest is reinstated as security costs to the Greater Sydney Determination.[16]

1.3.3.6. Stormwater modelling

In the Greater Sydney determination, IPART did not accept our proposed base year adjustment for strategic (flood) modelling of $0.6 million.

Funding is required to meet the requirements of the Greater Sydney Water Strategy implementation (clauses 39 and 42 of the Operating Licence) that would not be available under IPART's proposed reductions.

Additional funding is also required to support several elements of the Water Quality Management System under Clause 9 of the Operating Licence (such as recreation requests, chemical dosing, drought and bushfire assessments of water quality impacts and operational planning for floods, bushfires, and transfers).

This would enable strategic modelling continuous improvements, maintenance, and developments to support:

- long-term strategic planning, mitigation strategies development and prioritisation
- flood and storage operations in NSW
- managing asset risks from climate change.

Aither stated below:

> *It has been classified by WaterNSW as an ongoing compliance obligation, however it is not clear from the information provided that the obligation is new. Further to this, it is unknown if there are any costs from this modelling that were incurred during the recommended base year of 2023-24. Given this uncertainty, we have proposed a range whereby the low point of the range is no adjustment (due to costs potentially already being captured within 2023-24) and the full amount of $591k. The decision for IPART on where the adjustment should be within this range may be dependent on further information from WaterNSW or additional understanding of the context of the activities from IPART.*

[16] A proportion of the expenditure will have to be deducted from the Rural Valley 2023-24 Base Year under the IPART Rural Valley Review if IPART decides to use 2023-24 as the base year (noting that the WAMC determinaiton is unaffected as it does not adopt a base-step-trend approach). WaterNSW is keen to work with IPART during the upcoming Rural Valley Price Review to ensure the 2023-24 base year includes all the necessary adjustments.

WaterNSW wishes to provide further information on this matter. The base year costs (2023-24) were $222,248 as detailed in our BTS submission (RFI SA-59, tab Water Delivery, row13). WaterNSW is proposing an increase of the base adjustment of **$591,000**. WaterNSW submits that Aither's interpretation that implies that an increase in operating expenditure in the base year to meet an existing regulatory requirement would be an efficiency loss is inherently flawed. This overlooks the dynamic nature of regulatory compliance in the water modelling area, and the evolving expectations placed on WaterNSW for regulatory compliance.

It is important to note that the base year (2023–24) may not fully capture the costs associated with these activities, particularly if they were accelerated late in the year or are expected to increase in future years.

The proposed expenditure is in relation to both the yield review under the IPART operating licence and additional modelling support for Hydro Numerics to support the Greater Sydney Water Strategy (GSWS) implementation under the IPART Operating Licence from 2025-26 and onwards.

For example, under clause 35 of the Operating Licence:

> *(1) Water NSW must use a long-term hydrological model to determine the amount of water it can supply from water sources within declared catchment areas in successive 12 month periods based on: (a) inflows to declared catchment areas, (b) system losses impacting water available for supply from declared catchment areas, (c) the operating rules approved by the Minister, and (d) the design criteria, (the system yield).*
>
> *(2) In determining (or redetermining) the system yield, Water NSW must: (a) consider the impacts of climate change, (b) consult with Sydney Water, and (c) consider written guidance provided by the Department.*
>
> *(3) Water NSW must redetermine the system yield if any of the following occur: (a) a drought affecting declared catchment areas concludes, (b) a modification or augmentation to a catchment infrastructure work or customer's infrastructure commences that will have a significant impact on Water NSW's supply of water in and from declared catchment areas, (c) the Minister makes a material change to the operating rules referred to in (1)(c), (d) the Department makes a material change to the design criteria, or (e) the Minister requests Water NSW to redetermine the system yield.*
>
> *(4) Water NSW must, as soon as possible, advise the Minister and Sydney Water in writing of any change to the system yield and reasons for the change.*
>
> *(5) Water NSW must make publicly available online: (a) the system yield, and a report explaining how it was calculated, and (b) the design criteria.*

Under Clause 36:

> *(1) Water NSW must, by 31 March 2026, engage an independent expert to review and report on Water NSW's model, modelling and processes for determining the system yield (including the processes set out in clause 35) …*
>
> *(2) Water NSW must provide the independent expert with stakeholder feedback received under (3) and direct the independent expert to consider that feedback in undertaking its review and preparing its report.*
>
> *(3) Water NSW must, at least 6 months before engaging the independent expert to undertake the review and through the review process, consult with the following stakeholders on Water NSW's model, modelling and processes for determining the system yield: (a) customers who receive a direct water supply service from the declared catchment area, (b) the Department and IPART, and (c) other persons (excluding members of the public) that Water NSW, having considered this issue, reasonably expects to have an interest in the system yield.*
>
> *(4) Water NSW must, by 30 June 2026, submit to IPART and make publicly available online a report in accordance with the reporting manual that: (a) attaches the independent expert's report, and (b) provides Water NSW's response to the report, including: (i) opportunities for improvement that Water NSW proposes to action, and (ii) opportunities for improvement that Water NSW does not propose to action and why.*
>
> *(5) In this clause 36, independent expert means a person who is independent of Water NSW, has suitable qualifications and experience to proficiently conduct the review, and has not undertaken more than two consecutive reviews.*

Under Clause 37:

(1) Water NSW must, from 1 July 2025, maintain a water conservation plan that:

(a) covers Water NSW's assets in both declared and non-declared catchment areas,

(b) covers a range of measures for water conservation including storage, transmission, leakage and system operations,

(c) considers the 'NSW Water Efficiency Framework' published by the NSW Government in August 2022, to the extent it applies to Water NSW's operations,

(d) considers the strategic context provided by: (i) the 'NSW Water Strategy' published by the Department in August 2021, and (ii) the 'Greater Sydney Water Strategy' published by the Department in August 2022,

(e) includes details of water conservation programs and projects over the life of the plan, including timeframes, and reasonable estimates of costs and volumes of water lost or saved, [17]

Under Clause 38:

(1) Water NSW must engage in an ongoing climate risk assessment and management process that: (a) is consistent with the NSW Government's 'Climate Risk Ready Guide' (published March 2021) and addresses climate-related risks specifically, including priority risks, mitigation actions and adaptation actions, (b) furthers the objectives set out in clause 1(1)(b) of this licence, and (c) considers, where appropriate: (i) principles of NSW Government's 'Climate Change Adaptation Strategy' (published June 2022), and (ii) updated or replacement guidance material on climate risk assessment and management as it is released by the NSW Government and other bodies that Water NSW identifies as relevant.

(2) Water NSW must:

...

(b) by 30 June 2025, consistent with the Climate Risk Ready Guide assess Water NSW's current level of climate risk management maturity on the enterprise scale,

(c) by 30 June 2027, meet on the enterprise scale a systematic level of climate risk management maturity, as defined in the NSW Government's Climate Risk Ready Guide, and

(d) by 30 June 2028, make reasonable progress towards meeting on the enterprise scale an embedded level of climate risk management maturity, as defined in the NSW Government's Climate Risk Ready Guide.

Under Clause 39:

(1) Water NSW must:

(a) cooperate with Sydney Water to jointly review the Greater Sydney Drought Response Plan each calendar year and consult with the Department on the review,

(b) use its best endeavours to develop with the Department and Sydney Water an agreed approach to the review (including timeline, roles and responsibilities),

(c) jointly (with Sydney Water) submit to the Minister an updated plan, along with a report explaining the outcome of the review and any changes to the plan, by: (i) 31 December each year, or (ii) another date nominated by Water NSW and approved by IPART, and (d) make a summary of the updated plan publicly available online by: (i) 31 January each year, or (ii) another date nominated by Water NSW and approved by IPART.

[17] https://www.waternsw.com.au/documents/publications/general-publications/strategies,-plans-and-policies/WaterNSW-Operating-Licence-2024-2028.pdf

Under Clause 42:

> *Water NSW must, if requested by the Department, cooperate with the Department on any review of the NSW Water Strategy, the Greater Sydney Water Strategy and other regional water strategies.*

Accordingly, we submit that IPART approve the proposed base year adjustment for water modelling of $591,000. WaterNSW submits that the IPART consultants have rejected prudent and efficient costs to meet regulatory requirements without sufficient review and therefore we request that the proposed reductions are not applied in the final determination.

1.3.3.7. Digital operating costs

In our September 2024 proposal, WaterNSW proposed total digital operating expenditures of $56.5 million over three years ($95.8 million over five years) for Greater Sydney. This represented step increases of $32.4 million over three years ($54.1 million over five years) for digital operating expenditure for Greater Sydney:

- $16.1 million over three years ($26.9 million over five years) for non-salary and wages costs (i.e. software licencing and maintenance, telecommunications and networks, cloud computing)
- $16.3 million over three years ($27.2 million over five years) for salary and wages (i.e. this makes up the majority of the digital People related costs)

IPART, based on the recommendations from Aither, proposes reductions for digital operating expenditure for Greater Sydney of **$9.7 million**.

IPART's stated reductions to our proposed digital operating expenditures are as follows:

- $3.1 million for non-salary and wages costs (reductions to software licensing costs) over three years[18] In its final report, Atkins indicated that it has accepted the step changes proposed by WaterNSW for Telecommunications and Cloud Computing.
- $6.6 million for digital People costs.

IPART states in the draft determination that it has accepted the Aither upper-bound. Aither provided the following table in its final report that outlines how the proposed reductions were calculated.

[18] Aither proposed reductions of $5.09 million over five years. IPART have shown the proposed reductions over three years to match the three-year determination period.

Table 8 – Reproduced Table 39 from Aither Report re Digital upper bound costs

Table 39 Proposed upper-bound digital costs step changes ($millions)

Digital costs	2025-26	2026-27	2027-28	2028-29	2029-30	Total
WaterNSW baseline adjustment	4.79	4.79	4.79	4.79	4.79	23.96

Digital costs	2025-26	2026-27	2027-28	2028-29	2029-30	Total
WaterNSW proposed trend	0.51	0.49	0.75	1.19	0.01	2.94
WaterNSW total proposed increase	*5.30*	*5.29*	*5.54*	*5.98*	*4.80*	*26.91*
Software licensing costs AtkinsRéalis' recommended reduction						(5.09)
People costs AtkinsRéalis' recommended reduction						(11.07)
Recommended total increase in digital expenditure						*10.75*
Recommended annual digital step change	**2.15**	**2.15**	**2.15**	**2.15**	**2.15**	**10.75**

In reviewing the above table, it is apparent that there is an error relating to how Aither has assessed the WaterNSW digital proposal that formed the basis of Aither's subsequent reductions.

1.3.3.7.1. Digital People costs

Specifically, in the row titled "WaterNSW total proposed increase" in Aither's Table 39 above, Aither reports a total of $26.91 million over five years as the total WaterNSW digital operating expenditure proposal. This is incorrect. As noted earlier in this section, WaterNSW's proposed digital costs included two components: (1) non-salaries and wages, and (2) salaries and wages (i.e. this makes up the majority of the digital People related costs).

The total shown in Aither's Table 39 above of $26.91 million over five years ($16.1 million over three years) is only the "non-salary and wages" component of our proposal. The purported total is therefore incorrect and understated as it has missed our proposed digital People costs of $27.2 million over five years ($16.3 million over three years).

We consider that it is necessary to include digital People costs in our reported total in this table as Aither has removed $11.07 million of People costs over five years and therefore the reductions could only apply if the costs were in the assessed total in the first instance. Table 9 below sets out the impact of using the correct figure for our proposed digital costs.

1.3.3.7.2. Non labour digital operating costs

WaterNSW's proposed non-labour digital operating costs are driven by software licensing and maintenance, people related costs, telecommunications, and cloud computing. WaterNSW proposed operating expenditure base adjustments from 2022-23 to 2024-25, including a $5.8 million increase in software licensing and a trend adjustment increase of $0.8 million for software licensing.

As noted above, Aither proposed $3.1 million in reductions for non-salary and wages costs (reductions to software licensing costs) over three years[19] In its final report, Atkins indicated that it has accepted the step changes proposed by WaterNSW for Telecommunications and Cloud Computing. Therefore, all the proposed reductions for non-labour digital costs are for software licensing.

WaterNSW explained the need for the uplift in software licensing costs in our September 2024 pricing proposal as follows:

> ***Software licencing:***
>
> *Across the utilities sector, businesses are taking advantage of cloud services to meet growing technology demands. While these subscription-based services offer many advantages, the costs associated with data and storage are rising globally due to increasing data volumes and advancements in technology.*
>
> *Prices for licences, including associated maintenance agreements, under WaterNSW's digital program are anticipated to see increases of between 3.3% to 23% (for services without contracted pricing protection). For example, Microsoft customers (including WaterNSW) face price increases of between 5% and 15% due to factors such as product cost increases, regional pricing adjustments, loss of discounts, entitlement changes, and new product requirements. Additionally, software costs are projected to rise by another 40% by 2027 due to generative AI product pricing and packaging.*
>
> *While these increases are largely outside of our control, WaterNSW has attempted to mitigate or offset these increases where possible, including utilising whole of government pricing negotiated by the NSW Government.*[20]

Aither refers to the Atkins' Report, which states the following regarding software licensing costs:

> *We concur that the increases in licences are over and above inflation. However, we think that WaterNSW has put forward a worst case scenario. We think an efficient approach would be to do more to restrict the number of licences and to reduce the number of applications to offset other increases in costs. In addition, the increase in wider WaterNSW headcount has not been supported by this review, so some of the assumptions on number of licences required will be subject to downward revision. Moreover, we have seen no evidence to justify the huge spike in costs between FY24 and FY25. We are proposing an increase which aligns much more closely with the increases in software costs we have seen requested elsewhere over the same period.*[21]

WaterNSW considers that the proposed reductions in software licensing costs of $3.1 million over three years ($5.09 million over five years) as illustrated in Aither's Table 39 are excessive:

[19] Aither proposed reductions of $5.09 million over five years. IPART have shown the proposed reductions over three years to match the three-year determination period.

[20] WaterNSW Bulk Water Pricing Proposal, September 2024, Attachment 11, page 40.

[21] Atkins Final Report, page 152.

- Reducing software licensing by $1 million per year does not allow for the renewal of our existing software portfolio required to perform our support our core functions as an organisation. This also risks operational disruptions, outdated systems, and failure to meet regulatory compliance.
- The proposed reduction would have long-term negative consequences, ultimately costing more to resolve than maintaining the necessary budget.
- Software licensing costs are structured based on pricing tiers or thresholds rather than a strictly per license basis. Because of this tiered pricing model, reducing the number of licenses does not always lead to a proportional decrease in overall costs. If we reduce number of licences, we are often faced with unfavourable pricing per licence.

WaterNSW maintains that software licensing costs have increased in line with our original proposed amounts and we seek IPART's adjustment to this has corrected for this error in the table below.

Table 9 – Aither Table 39 corrected for the omission of WaterNSW' proposed digital People costs ($millions, $2024-25)

Digital costs ($millions)	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**5-year Total**	**3-year Total**
WaterNSW baseline adjustment (Salaries & Wages) – **correction**	$5.43	$5.43	$5.43	$5.43	$5.43	**$27.15**	**$16.29**
WaterNSW baseline adjustment (Non-Salary)	$4.79	$4.79	$4.79	$4.79	$4.79	**$23.96**	**$14.38**
WaterNSW proposed trend adjustment	$0.51	$0.49	$0.75	$1.19	$0.01	**$2.94**	**$1.75**
*WaterNSW total proposed increase – **corrected***	*$10.73*	*$10.72*	*$10.97*	*$11.41*	*$10.23*	*$54.06*	*$32.42*
Software licensing costs Atkins' recommended reduction[22] **correction**	$0	$0	$0	$0	$0	**$0**	**$0**
People costs Atkins' recommended reduction	-2.21	-2.21	-2.21	-2.21	-2.21	**-$11.07**	**-$6.64**
Recommended annual digital step change - corrected	**$8.60**	**$8.60**	**$8.60**	**$8.60**	**$8.60**	**$42.99**	**$25.79**
Draft Determination step change	$2.15	$2.15	$2.15	$2.15	$2.15	$10.75	$6.45
Required adjustment to draft determination opex	***$6.45***	***$6.45***	***$6.45***	***$6.45***	***$6.45***	***$32.24***	***$19.35***

* Source: Aither - Expenditure review of WaterNSW Greater Sydney - Final Report - July 2025.pdf, page 66 and 67

WaterNSW therefore considers that our proposed digital people costs over three years were mistakenly omitted from the Aither analysis and need to be added to their "WaterNSW total proposed increase" assessment (irrespective of whether Aither proposes to not accept the costs). Correcting for this error and adjusting the software licensing reduction results in an upward adjustment of **$6.45 million** per year to the IPART final determination operating expenditure allowance as illustrated in the last row in ***Table 9 –***.

WaterNSW seeks clarity from IPART in the final determination as to the total funding proposed for digital operating expenditure for Greater Sydney in the upcoming period.

While we have visibility of the proposed reductions over three years to the step change (i.e. $9.7 million), we do not have clear line of sight as to the base year assumption that IPART and its consultants have assumed that would flow through to operating expenditure each year, which in turn establishes the total digital operating expenditure funding envelope over the next three years.

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22 WaterNSW has shown the software licensing uplift in this base adjustment section for readability as the narrative follows the Digital People cost discussion. We propose this is a step adjustment as shown in Table 1.

This lack of clarity on what is contained in the base year and step adjustments is an unacceptable risk associated with the BTS approach if water utilities do not have visibility of IPART's allowances moving forward. This is a departure from all previous determinations where the regulatory allowance has been clearly shown in the draft and final determination reports.

1.3.4. Trend adjustments

1.3.4.1. Insurance

In the draft report, IPART stated the following with respect to its consideration of the future costs of insurance:

> *WaterNSW's proposed annual increases in insurance fluctuate significantly and equate to an average increase of 6.6% per annum. Aither recommended adopting an escalation factor of 5.34% per year, based on forecasts from icare, for both the lower bound and the upper bound.*

Aither stated the following in its final report:

> *The adjustment to the base for insurance costs was based on the difference in cost from 2022-23 to 2024-25. From data provided by WaterNSW we can see the insurance costs across both 2022-23 and 2023-24 (see Table 20). Given the recommendation to adopt 2023-24 as the base year for operating expenditure, we propose that the insurance costs for 2023-24 is the base to derive any adjustments for determining the base for forecast operating expenditure. This works out to be a recommended adjustment of $162,608 which equates to an increase of less than 5 per cent which appears reasonable.*[23]

Figure 8 – Reproduced table from Aither Report Insurance

Table 20 Greater Sydney insurance adjustment to the baseline operating expenditure

	2022-23	2023-24	2024-25
Insurances - Property	2,581,841	2,895,587	2,936,944
Insurances - Public Liability	508,872	404,461	525,712
Total	**3,090,713**	**3,300,048**	**3,462,656**

WaterNSW proposed $12.7 million in insurance costs over three years, with IPART allowing $11.5 million (-$1.2 million or -9.2% over three years). In IPART's BTS framework, this reduction is based on adjustments to: (1) the base year assumption being lower than WaterNSW's proposal and (2) a lower annual increase.

While WaterNSW accepts that the base year amount of $3.5 million is based on information provided by WaterNSW, we do not agree with Aither's assessment of the reasonable annual increase.

icare provided an annual forecast increase of 7.98% over six years that was provided to Aither in our response to a request for information.[24] In that response, icare forecasts weighted average annual increases in 2025-26, 2026-27 and 2027-28 of 15%, 10% and 7%, respectively, and states that:

[23] IPART *Review of prices for WaterNSW services in Greater Sydney from 1 October 2025 – Draft Report, July 2025*. Page 40.

[24] WaterNSW response to Request for Information SA52.

This estimated cost increase is primarily driven by the commercial cost and availability of reinsurance to cover associated risks as well as increased frequency and severity of weather events. icare annually conducts commercial insurance market benchmarking to measure value for money through the TMF. Such benchmarking exercises consistently demonstrate the lack of commercial insurance market capacity to support the breadth of coverage afforded through the TMF, as well as the value for money achieved through the TMF as compared with commercial insurance alternatives.

It appears that Aither has simply taken the weighted average annual increase of 7.98% over six years and converted this to real terms by deflating the rate by 2.5% to obtain their recommended annual increase of 5.34% over six years. What the Aither approach does not do is consider the individual weightings of the property and public liability components and is not applicable for a three-year determination where icare's forecast step changes are heavily weighted to the early years of the regulatory period.

It is important to note that the BTS framework is ill suited for estimating the cost of insurance. We understand that insurance premiums are calculated using probabilistic modelling and analysis from insurance providers such as icare. We submit that a quote from an insurance provider will always represent a more robust estimate of the cost of insurance compared to the outcome of any BTS assessment.

We note that IPART's Guidelines explicitly allow for different forecasting methods. As noted earlier in this submission, the guidelines encourage utilities to tailor their approach to the nature of the expenditure. WaterNSW's use of bottom-up forecasting for some cost items aligns with this principle:

Therefore, the relevant icare forecast over three years in nominal terms for Property and Public liability insurance is 12.1%, and when converted to real terms ($2024-25) is 9.35% (compared with the 5.34% as recommended by Aither) as outlined in the tables below.

Table 10 – WaterNSW icare Treasury Managed Fund Contribution ($000s)

								6 Year Avg	3 Year Avg
WaterNSW Level ($000)	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	FY26 -FY31	FY26 – FY28
Property	$5,199	$5,978	$6,576	$6,905	$7,250	$7,613	$7,993		
Annual Δ %		15%	10%	5%	5%	5%	5%	7.5%	10.0%
Annual Δ % adjusted		**12.2%**	**7.3%**	**2.4%**	2%	2%	2%	4.9%	7.3%
Public Liability	$1,193	$1,543	$1,790	$2,076	$2,346	$2,463	$2,586		
Annual Δ %		29%	16%	16%	13%	5%	5%	14.1%	20.5%
Annual Δ % adjusted		**26.2%**	**13.2%**	**13.2%**	10%	2%	2%	11.3%	17.5%
Subtotal Property and Public liability	**$6,391**	**$7,521**	**$8,366**	**$8,981**	**$9,596**	**$10,076**	**$10,580**		
Annual Δ %		18%	11%	7%	7%	5%	5%	8.85%	**12.1%**
Annual Δ %adj		**14.8%**	**8.5%**	**4.7%**	4%	2%	2%	**6.20%**	**9.35%**
Motor vehicles	$364	$382	$401	$421	$438	$456	$474		
Annual Δ %		5%	5%	5%	4%	4%	4%	4.5%	5.0%
Annual Δ % adjusted		**2%**	**2%**	**2%**	1%	1%	1%	2.0%	2.4%
Workers Comp	$1,555	$1,648	$1,747	$1,834	$1,926	$2,022	$2,124		
Annual Δ %		6%	6%	5%	5%	5%	5%	5.3%	5.7%
Annual Δ % adjusted		**3%**	**3%**	**2%**	2%	2%	2%	2.8%	3.1%
Miscellaneous	$7	$7	$7	$8	$8	$8	$8		
Annual Δ %		5%	5%	5%	3%	2%	2%	3.8%	5.0%
Annual Δ % adjusted		**2%**	**2%**	**2%**	0%	0%	0%	1.2%	2.4%
Total TMF Contribution	$8,317	$9,559	$10,522	$11,245	$11,968	$12,562	$13,186		
Annual Δ %		15%	10%	7%	6%	5%	5%	**7.98%***	**10.6%**
Annual Δ % adjusted		**12%**	**7%**	**4%**	4%	2%	2%	**5.34%**	**7.93%**

Source: SA-52 icare - FINAL Water NSW Insurance Contribution Forecasts 2526 to 3031.pdf

* Aither implied calculation, Annual Δ % adjusted is converted to real terms using an inflation forecast of 2.5 percent

Table 11 – Aither analysis of Greater Sydney property and public liability insurance

Table 25 Greater Sydney property and public liability insurance

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Insurances - Property	2,936,944	3,293,334	3,533,876	3,621,137	3,710,592	3,802,295
% increase property		*12.13%*	*7.30%*	*2.47%*	*2.47%*	*2.47%*
Insurances - Public Liability	525,712	663,549	750,944	849,848	936,906	959,758
% increase public liability		*26.22%*	*13.17%*	*13.17%*	*10.24%*	*2.44%*
Insurance Total	3,462,656	3,956,883	4,284,820	4,470,985	4,647,498	4,762,053
% increase total		14.27%	8.29%	4.34%	3.95%	2.46%

Source: Aither - Expenditure review of WaterNSW Greater Sydney - Final Report - July 2025.pdf, table 25.

WaterNSW proposes that the appropriate adjustment for insurance costs is **9.35% per year** in real terms, based on the same analysis used by Aither, but updated for a three-year rather than a five-year determination period. This would have the effect of increasing our proposed insurance costs by **$0.392 million per year** over the three-year period.

Table 12 – Greater Sydney property and public liability insurance ($000, $2024-25)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	3-Year Total	3-Year Average
WaterNSW Submission	$3,463	$3,957	$4,285	$4,471	$4,647	$4,762	**$12,713**	**$4,238**
Annual Δ %		14.3%	8.3%	4.3%	3.9%	2.5%		**9.0%**
IPART Draft Determination	$3,463	$3,648	$3,842	$4,048			**$11,537**	**$3,846**
Annual Δ %		5.3%	5.3%	5.3%				**5.3%**
WaterNSW response	$3,463	$3,957	$4,285	$4,471			**$12,713**	**$4,238**
Uplift vs Draft Determination		**$309**	**$442**	**$423**			**$1,175**	**$392**

1.3.4.2. Efficiencies

WaterNSW initially proposed a broad efficiency factor of 1% of operating expenditure compounding annually. This relatively ambitious proposal was anchored by the accompanying operating and capital programs which were (amongst other things) designed to meet the challenge of increasing obligations and generate long-term efficiencies.

In its draft determination, IPART applied an efficiency factor of 0.9% per year, which substantially accepts WaterNSW's proposed adjustment. IPART's explanation is provided below:

> *WaterNSW proposed an efficiency factor of 1.0% per year in its September 2024 proposal. We note that this is slightly higher than the efficiency factors proposed by Hunter Water and Sydney Water (0.9% per annum and*

0.7% per annum respectively), however, we recognise that the level of efficiency improvements a business can achieve can vary between different businesses due to a multitude of factors …

We note that while WaterNSW proposed an efficiency factor of 1.0% per year in its September 2024 proposal, in reviewing the operating expenditure information submitted by WaterNSW, Aither found that the actual efficiency amount proposed is slightly less than 1.0% per year (see Table 4.4).

We have made a draft decision to set WaterNSW's efficiency factor at 0.9% per year. We consider that this is sufficient based on the other draft decisions we have made on operating expenditure, and this is also consistent with the restructured trend factor Aither calculated based on WaterNSW's proposal.

WaterNSW acknowledges IPART's approach to accepting our proposal on this matter. However, the approach to efficiencies should more appropriately be made in the context of the overall draft decision, notably the material reductions to operating expenditure, digital enablement and capital expenditure. As a result, WaterNSW considers that its initial proposal is now overly optimistic in this context as it lacks the increased cost base that provided scope for future efficiencies once compliance had been achieved, as well the reductions imposed on enabling investments that are essential to securing forward efficiencies.

Given the material reductions that have been applied to the starting base for operating expenditures as well as direct reductions to annual cost changes, the application of additional annual efficiency adjustments is impractical, unsustainable and duplicative.

In considering this response, WaterNSW sought to consider the broader discourse on efficiency factors in other regulatory processes as well as economy-wide observations.

WaterNSW therefore notes the following statement by IPART in the draft decision for Sydney Water:

We have assessed the Australian multi-factor productivity since 1996 to understand the economy-wide efficiency gains. We undertook our analysis on across a group of 16 industries, and also tested 12 industries. This analysis showed an average multi-factor productivity between 0.7%. and 0.9%.

Based on this, we consider Sydney Water's proposal of 0.7% is reasonable.[25]

Moreover, since the lodgement of our proposal, the Reserve Bank of Australia (RBA) has recently released its assessment of Australia's national productivity trends at 0.7% per annum.[26]

While IPART has substantially accepted our proposed productivity factor based on Aither's recommendation of 0.9% per annum, this figure must now be considered overly-optimistic given the RBA's downward revision and the significant reductions to our proposed expenditure programs. WaterNSW also suggests that the RBA's estimate is likely to be more forward-looking and would incorporate recent data and trends.

WaterNSW reaffirms its commitment to continuous improvement and seeking efficiencies to be passed on to its customers as demonstrated by our recent announcements. In light of the range of considerations outlined above, however, we consider that the more appropriate efficiency factor to be applied is **0.7% per annum**. This would be consistent with the draft decision for Sydney Water and more recently as confirmed by the RBA as the best measure of long-term efficiency in Australia. It would also, at least in part, recognise the up-front efficiency reduction applied by IPART in other parts of its decision that would need to be found by WaterNSW.

25 Sydney Water draft determination. Page 49.

26 https://www.afr.com/policy/economy/rba-issues-shock-warning-of-a-poorer-australia-as-it-cuts-rates-20250812-p5mm85 <https://www.rba.gov.au/speeches/2025/mc-gov-2025-08-12.html>

The efficiency calculation from the draft determination that assumes 0.9% per year is shown in the following table. WaterNSW then calculates the efficiency calculation assuming and efficiency factor of 0.7% per year and our adjusted operating expenditures in Table 14.

Table 13 – IPART efficiency factor from the Draft Determination ($2024-25, $000s)

	2023-24	2025-26	2026-27	2027-28	3-Year Total	3-Year Average
Labour		$386	$392	$376	$1,154	$385
Insurance		$185	$195	$205	$585	$195
Land tax		$351	$371	$393	$1,115	$372
Total Trend adjustments		$922	$958	$974	$2,854	$951
Cost growth trend factor		0.9%	0.9%	0.9%		0.9%
Baseline controllable Opex	$103,674	$103,663	$103,688	$103,729	$311,081	$103,694
Efficiency adjustment factor		**0.9%**	**0.9%**	**0.9%**		**0.9%**
Efficiency adjustment amounts		**-$933**	**-$933**	**-$933**	**-$2,799**	**-$933**

Table 14 – Adjusted efficiency factor and adjustment amounts ($2024-25, $000s)

	2023-24	2025-26	2026-27	2027-28	3-Year Total	3-Year Average
Labour		$386	$392	$376	$1,154	$385
Insurance		$494	$328	$186	$1,008	$336
Land tax					$0	$0
Total Trend adjustments		$880	$720	$562	$2,162	$721
Cost growth trend factor		0.8%	0.7%	0.5%		0.7%
Baseline controllable Opex	$103,674					
Base year uplifts from table 1 *	$10,420					
Remove non-controllable land tax	-$6,832					
Adjusted Baseline controllable Opex	$107,262	$107,391	$107,359	$107,170	$321,920	$107,307
Efficiency adjustment factor		**0.7%**	**0.7%**	**0.7%**		0.7%
Efficiency adjustment amounts		**-$751**	**-$752**	**-$752**	**-$2,254**	**-$751**
Efficiency adjustment amounts vs Draft Determination		**$182**	**$181**	**$182**	**$545**	**$182**

* Including Land tax reinstated base year amount

As illustrated above, our adjusted efficiency factor results in an operating cost uplift of $545,000 over the three-year period or **$182,000** per year on average.

1.3.5. Step adjustments

1.3.5.1. Regulatory submission costs

One of the efficient costs of a regulated entity is the costs of undertaking the preparing a regulatory submission, that takes many years of preparation.

IPART stated the following in its draft decision regarding its approach to regulatory submission costs:

We accepted Aither's upper recommendation on regulatory submission costs.

This becomes a positive step change under our draft decision because WaterNSW's proposal included regulatory submission costs as part of base operating expenditure, and Aither has recommended removing these from the base operating expenditure and adding them back in through a step change.[27]

Aither's final report included the information contained in the following table for its recommended regulatory submission costs.

Table 15 – Proposed versus allowance Regulatory Submission Costs step changes ($000s, $2024-25)

$000, $2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	Total	Chg ($)
Total proposed	$517	$544	$1,484	$1,944	$966	**$5,455**	**-**
Upper bound (-25%)	$388	$408	$1,113	$1,458	$725	**$4,092**	**-$1,364**
Lower bound (-50%)	$259	$272	$742	$972	$483	**$2,728**	**-$2,728**

WaterNSW's proposal and phasing reflected the preparation process for a five-year determination that would commence in 2026-27 before ramping up over the next two years.

IPART's decision that is based on Aither's upper bound, allows regulatory submission costs over five years at $4,092 ($000s) or a **reduction of $1,364 million (-25%)** from WaterNSW's September 2024 proposal.

WaterNSW does not support Aither's arbitrary 25% reduction to our proposed expenditure, noting that if anything our regulatory review requirements have increased, including the need to resource for IPART's suggested reviews over the next few years. We maintain that our originally proposed expenditures that are based on our actual costs and experience with IPART's 3Cs framework, remain appropriate to be recovered over the 2025 Determination period. A 25% reduction to our proposed costs would likely materially impact the ability to meet IPART's regulatory requirements to prepare the next Greater Sydney submission at an acceptable level of quality.

WaterNSW notes that the costs of the determination are expected to be similar whether it's a three or five year period. That is, the forecast costs of preparing the next Greater Sydney proposal of $4.1 million over five years would need to be recovered over three years (i.e. at an average of **$1.3 million per year** for three years, rather than the Aither proposed level of $0.8 million per year over five years).

1.3.5.2. Adjustment for Warragamba E-flows

IPART has proposed a $315,000 reduction in operating expenditure over the forward period, applying the BTS approach. This results in an annual deduction of $315,000 from the 2023–24 base year across the next three years. However, WaterNSW did not incur or forecast $315,000 in operating expenditure related to the E-flows project, making this adjustment inconsistent with the principles of the BTS methodology.

WaterNSW also notes that Aither did not recommend this adjustment in their expenditure report and therefore we have not previously provided our views on this matter. Accordingly, WaterNSW requests that IPART **reinstate $315,000** in operating expenditure for each of the next three years to ensure accurate and consistent treatment of costs.

[27] IPART *Review of prices for WaterNSW services in Greater Sydney from 1 October 2025 – Draft Report, July 2025*. Page 41.

1.3.5.3. Adjustment in overhead based on updated vacancy rates

Vacancy rates are an important consideration for this review. Our September 2024 proposed labour costs were based on an assessment of the costs required to meet our regulatory obligations. These forecast costs were then discounted by the assumption that at any time there would be a percentage of roles that would be unfilled (vacant). Funding of the 'net' position (forecast labour costs less the costs associated with vacant positions) was considered appropriate to ensure customers were only charged for our efficient costs. WaterNSW proposed a stretch target for the vacancy rate of 12% that was well above our historic rate, but achievable if our proposed labour costs were accepted.

In our 2024 pricing proposal, WaterNSW included a step reduction in overheads of approximately $14.5 million per annum, reflecting assumed staff vacancies at a rate of 9.1% in Operations and 13.3% in the other business units (12% on average) based on our forecast operating expenditure. The table below outlines the forecast pre-allocated vacancies (in $2024-25) in the overheads segment.

These amounts will be subject to cost allocation, with a proportion allocated to the Greater Sydney region (40.4% on average) (*Source-WaterNSW high level model: FY26-30 Corporate Overhead analysis.xlsx*). Combined with other changes to overhead pools and allocation methodologies, these adjustments contributed to the net overhead base reduction of $5.87 million on average over the 3-year period.

Table 16 – Proposed vacancy adjustments in our original proposal for WaterNSW ($000s, $2024-25)

Segment Code	Area	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	3-year Avg
OVH	Corporate Affairs	-$732.8	-$753.9	-$759.3	-$766.9	-$774.6	-$782.5	-$760
	Customer Services	-$2,376.6	-$2,230.5	-$2,218.2	-$2,241.3	-$2,264.5	-$2,288.1	-$2,230
	Digital	-$1,863.3	-$1,844.9	-$1,858.6	-$1,877.0	-$1,895.5	-$1,914.4	-$1,860
	Finance Legal & Risk	-$1,232.8	-$1,231.0	-$1,238.0	-$1,248.0	-$1,258.1	-$1,268.4	-$1,239
	Operations	-$5,575.9	-$5,710.1	-$5,740.0	-$5,796.2	-$5,853.2	-$5,910.8	-$5,749
	Safety People & Culture	-$746.9	-$690.2	-$688.0	-$694.2	-$700.4	-$706.8	-$691
	Strategy & Performance	-$2,286.4	-$2,175.4	-$1,932.0	-$1,949.5	-$1,966.9	-$1,984.7	-$2,019
OVH Total		**-$14,815**	**-$14,636**	**-$14,434**	**-$14,573**	**-$14,713**	**-$14,856**	**-$14,548**

Source: RFI SA-38

WaterNSW considered our proposed vacancy rate of approximately 12% in our original proposal, which was higher than historic rates, was reasonable given the proposed increase in expenditures to meet our regulatory obligations.

However, given IPART's reductions to our proposed operating and capital programs to align with historic levels and the impacts this is likely to have on future staffing levels, the higher vacancy rate is no longer considered achievable. WaterNSW considers that a vacancy rate more in line with historic levels of around 8% is more sustainable. The impacts of the lower vacancy rate are discussed below.

Following IPART's proposed reductions to the operating allowance, a lower vacancy adjustment has been calculated. This adjustment results in an increase in operating expenditure due to the lower assumed vacancy efficiency (based on lower FTEs / IPART reductions). We have calculated this adjustment based on the following formula:

$14.5 million per annum assumed vacancy efficiency adjustments multiplied by:

The Greater Sydney share of 40.4% on average multiplied by:

The proportion of Greater Sydney controllable operating expenditure reductions compared to our pricing proposal of 15.5%.

Of this increase, a $909,480 per year reversal is allocated to the Greater Sydney Determination. Therefore, WaterNSW requests that IPART increase the operating expenditure allowance by **$909,480** per year over the 3-year determination period due to its proposed reductions to controllable operating expenditure which would reduce the vacancy efficiency (and hence increase the proposed operating expenditure by reversing a percentage of vacancy efficiency allocated to the Greater Sydney operating expenditure reductions).

1.3.5.4. Adjustment in overhead allocation based on lower capitalised overhead

WaterNSW acknowledges IPART's draft decision to apply a $10.1 million negative step change over three years for overhead allocation. In response to IPART's Information Paper, WaterNSW indicated that around $8 million per year in capitalised overheads across WaterNSW would need to shift to operating expenditure due to a significantly reduced capital program.

Based on the Greater Sydney draft decision expenditure outcomes, we advise that the flowback to operating expenditures from IPART's proposed capital expenditure from the draft determination is an increase of approximately $2.3 million over 3 years for Greater Sydney compared with what we proposed in September 2024. WaterNSW has provided detailed modelling in August 2025 in advance of this submission to support this calculation as part of an IPART information request which also forms part of this review.

The detailed modelling focused on the additional overhead flowing to operating expenditure as a result of IPART's reduction in the proposed capital expenditure allowance. Our revised increase considers the additional overhead arising from both: 1) reduction in proposed capital expenditure allowance and our proposed reinstatement of Cataract dam and Infrastructure Renewals costs and 2) reduction in proposed operating expenditure allowance and our proposed reinstatement of a proportion of the proposed reductions as per Table 1 of this submission.

Attachment 1 provides an update to the overhead calculation model as previously provided to IPART for the changes identified above.

1.3.5.5. Greater Sydney CSO / Grant Expiry

In the Aither Report, it is stated that WaterNSW will receive a Community Service Obligation (CSO) for land management for the amounts specified below. This is factually incorrect. The $1.1 million per year adjustment was made as a result of an IPART recommendation in 2020 that users or Government should fund 50% of the prudent and efficient cost of recreational land management:

> *Our decision is:*
>
> *To apportion 50% of the costs of providing recreational facilities to water customers, with the remaining 50% to be recovered from either direct users of recreational facilities (ie, user fees) or the NSW Government (on behalf of the broader community).*[28]

We would like to clarify that these amounts are not guaranteed to be recovered as a CSO as we require a declaration that they are prudent and efficient.

We recommend that Aither adjust the description of this step change to reflect the above comments and provide a recommendation as to whether they believe the amounts identified ($1.1 million per year) are

[28] Page 20; https://www.ipart.nsw.gov.au/sites/default/files/documents/final-report-review-of-prices-for-water-nsw-greater-sydney-june-2020_0.pdf

prudent and efficient to be funded by the Government using the 50:50 cost split between users and Government.

A formal declaration from IPART confirming its recommendation of $1.1 million per year in CSO payments to support recreational land management would assist WaterNSW in securing the necessary funding from the NSW Government.

The relevant table from the Aither report is reproduced below for reference:

Figure 9– Reproduced table from Aither Report CSO / Grant

Community Service Order (CSO) or Grant Expiry

WaterNSW identified that it could receive a Community Service Order payment from the NSW Government relating to land management that will reduce the operating expenditure required to be recovered from Greater Sydney customers. We note that this CSO is still subject to NSW Government approval.

Table 15 Proposed Community Service Order (CSO) or Grant Expiry step change ($2024-25)

OPEX steps	2025-26	2026-27	2027-28	2028-29	2029-30
CSO / Grant expiry	(1,082,647)	(1,083,376)	(1,085,890)	(1,088,410)	(1,090,985)

1.4. Capital Expenditure – Infrastructure

We welcome IPART's decision to not accept Aither's recommendations on the **Warragamba Dam Resilience** project and to accept our revised costs of $82 million over three years for this important project.

We note IPART's recommendation to not provide funding for the **Warragamba E-flows** project and that on this basis we will consider this project at the subsequent review or seek alternative funding before the project can be initiated. We do not agree with the removal of $315,000 in operating expenditure per year for the project on the basis that these were not incorporated in our proposed costs.

We do not support the adoption of the Aither lower bound estimate and reduction of **$25 million (80%)** over three years for the **Cataract Dam Safety and Upgrade**. In this submission, we provide additional evidence as to why this project as originally proposed is in the long-term interests of our customers. This project is a response to the dam safety risks identified that plot above the safety threshold as prescribed by Dam Safety NSW.

IPART's adoption of the Aither lower bound estimate for the **Water Infrastructure Renewals Program** and the **$81 million reduction (42%)** to the proposed costing over three years results in an unacceptable risk of an incident related to safety, environmental harm or interference of supply. Additional evidence is provided by WaterNSW as to why our original proposal is likely to provide a more acceptable outcome for customers and the community.

This section of the WaterNSW response focusses on the review of capital expenditure conducted by Aither in relation to the FY26-30 Greater Sydney program proposed by WaterNSW.

The lack of clear guidance on the factors influencing the proposed range values makes it inherently difficult for WaterNSW to assess the validity of the findings and, in turn, will likely challenge IPART's ability to make an informed assessment. Furthermore, the lower-bound scenarios often do not align with the report's own definition of a '*minimum expenditure required to deliver essential services while seeking to balance affordability with service quality*'.

Specific examples of the misalignment in the low expenditure scenarios include:

- **Warragamba Dam Resilience** – excluded from both an upper and lower range despite clear climate change and dam safety drivers for the project. We welcome IPART's rejection of the Aither recommendation and IPART's inclusion of $82 million for this project over the next three years.
- **Warragamba E-Flows** – Proposed lower bound of $0 with no apparent justification linked to the stated guidelines or factors considered by the reviewer to reach this position.
- **Cataract Dam Safety and Upgrade** – only provides a low expenditure scenario, based upon the consultant's interpretation of WaterNSW Dam Safety obligations, including a risk analysis suggesting ongoing use of temporary controls being appropriate, which is not WaterNSW's expert view.
- **Warragamba Pipeline Renewals** – the low expenditure scenario does not align with WaterNSW's assessment of the (high) level of risk associated with deferral of the proposed works with a modest customer bill impact. This would appear to contradict the stated intent of the lower range form the terms of reference, which is to represent the '*minimum expenditure required to deliver essential services while seeking to balance affordability with service quality*'.

1.4.1. Dam Safety – Legislative Obligations

IPART has engaged two separate consultants to review WaterNSW Greater Sydney and Rural pricing proposal expenditures. Based on the draft reports provided, it is evident that the consultants have differing levels of understanding regarding dam owners' responsibilities and obligations under the *NSW Dams Safety Regulation 2019* (the Regulation). This discrepancy is a significant concern for WaterNSW, particularly in relation to Greater Sydney.

A fundamental legislated principle for dam owners is the requirement to reduce dam safety risks "So Far As Is Reasonably Practicable" (SFAIRP). WaterNSW is concerned that IPART's Greater Sydney consultant has not adequately interpreted the assessment and management of risks within the current dams safety regulatory framework and the critical importance of the SFAIRP principle. The *Dams Safety Regulation 2019* no longer refers to risk appetite or acceptable risk thresholds; instead, it mandates that all risks be managed to SFAIRP.

The Dams Safety Regulation clearly places the dam owner as being responsible (and hence liable) for the decisions on assessing reasonableness and implementation of control measures.

WaterNSW is concerned that the Aither reviewer has overlooked key elements, leading to findings that could result in insufficient revenue allowance to progress the requisite work to demonstrate SFAIRP, resulting in non-compliance with NSW Dams Safety regulations.

Given that approximately 50% of WaterNSW's FY26-30 Greater Sydney pricing submission expenditure relates to dam safety compliance activities, the absence of dam safety subject matter expertise in the review process represents a critical oversight. We welcome IPART's acceptance of the costs of the Warragamba Dam Resilience project over three years but note that we have concerns regarding the allowance for the Cataract Dam upgrade and whether dam safety risks have been given adequate consideration.

1.4.2. Warragamba E-Flows

WaterNSW proposed the Warragamba E-flows, to modify Warragamba Dam to enable the release of variable environmental flows ($302 million over 5 years). WaterNSW states that this will improve health and recreational opportunities in the Hawkesbury-Nepean River.

IPART has recommended to not provide funding for the project and to remove $315,000 in operating expenditure per year for the project.

Aither's analysis acknowledges the prudency, sound environmental objectives and appropriate cost detail associated with the Warragamba E-Flows project as per the below extract from page 13 of the report:

Figure 10 - Extract from page 13 of the Draft Report

Findings

The project is well developed and has clearly articulated drivers, benefits and costings. Overall, the prudency, efficiency and alignment of the project to IPART's 3Cs have been shown in the documents provided, and although there are opportunities to improve some aspects of the project it generally appears sound. This includes:

1. The project is driven by sound environmental objectives and is supported by broader government policy and public sentiment.
2. The project documentation has undergone review by INSW at Gate 1 and 2 stages, with the recommendations accepted and implemented by WaterNSW.
3. Costing associated with construction, including scheduling impacts, appears reasonable and of an appropriate level of detail.
4. A performance monitoring program has been developed to ensure the realisation of benefits.
5. It is reasonable to assume that further delays to undertaking the project may result in further escalation of costs (as has occurred in recent years), without additional benefit, though this is not explicitly described or quantified in the documentation.

The favourable findings highlight the project's alignment with government policy, public sentiment and the rigorous assessment process, including Infrastructure NSW's Gate 1 and 2 reviews. Additionally, the analysis recognises the potential cost escalations associated with further delays.

Figure 11 **-** Extract from Page 14 of the Draft Report

Box 4 Recommendations Warragamba E-flows Project

Proposed by WNSW		$301.76 million
Recommended range	$0	$301.76 million

Low-expenditure scenario $0

- Deferring all construction until the next determination period.

This scenario carries a risk of substantial further escalation of costs in the 2030-35 determination period, while the benefits of deferring (e.g. reduced bill impacts to end use customers) would be extremely minimal in the 2025-30 period. There would be an associated reduction in recurrent operating costs in the 2025-30 period of ~$315,000 under this scenario.

High-expenditure scenario $301.76 million

- Undertake the proposed works as planned by WaterNSW.

As this project is prudent and largely inevitable to meet dam environmental management best practice this scenario would allow for benefits and outcomes of much investigation and project development to be realised most efficiently by delivering environmental benefits in the near term for the likely lowest overall expenditure.

In the draft determination, IPART states:

> *We recognise that Aither found that the project is well developed and has clearly articulated drivers, benefits and costings. However, we note that WaterNSW deferred the project despite having received an allowance for this in the 2020 determination period, and it has not prioritised the project as a critical and urgent top 5 project in its June 2025 submission to our Information Paper. Additionally, the project does not impact WaterNSW's ability to deliver its core business.*[29]

WaterNSW notes IPART's draft decision to not provide funding for the E-flows project. WaterNSW will work with NSW DCCEEW to consider the E-flows project at the subsequent determination, or subject to further policy direction from the NSW Government, seek alternative funding before the project is progressed.

1.4.3. Cataract Dam Safety Upgrade (Section 2.5.4 of the Aither Report)

WaterNSW proposed $35.74 million for this project over five years ($30.8 million over three years), while IPART adopted Aither's estimate of $7.15 million over five years (**$6.2 million over three years (-80%)**), which was the same in both Aither's upper and lower bounds.

In responding to the Aither draft report, WaterNSW identified several potentially incorrect and misleading assumptions and assertions regarding this project. These possible errors raised concerns as to whether the consultants demonstrated a fundamental understanding of the regulatory framework, dam safety risk management approach, and the technical considerations underpinning WaterNSW's proposed structural risk mitigation measures. The key issues are outlined below:

- To comply with Dams Safety NSW regulatory requirements, WaterNSW must implement all reasonable risk reduction measures to meet the "So Far As Is Reasonably Practicable" (SFAIRP) standard. Detailed analysis confirms that both proposed risk mitigation measures, "Structural Mitigation Measures" SMM1 and SMM2, are required to achieve SFAIRP. Additional studies or

[29] IPART *Review of prices for WaterNSW services in Greater Sydney from 1 October 2025 – Draft Report, July 2025.* Page 52.

increased “state of knowledge” will not change this conclusion. This determination has been independently verified by the Technical Review Panel (formerly DERP).

- WaterNSW does not consider further desktop studies—such as those suggested by IPART—to be prudent expenditure. Additional analysis will not alter the need for both SMMs, nor improve their cost-effectiveness. Implementing **SMM2 alone** fails to meet the regulatory requirement to reduce foreseeable risks to SFAIRP.
- The Dams Safety Regulation, regulatory framework, and WaterNSW dam safety risk management approach have been misunderstood by the draft report.
- If IPART adopts the consultant’s findings, it may compromise necessary dam safety management for Cataract Dam, potentially resulting in regulatory non-compliance.
- The assessment of Structural Mitigation Measures (SMM1 and SMM2) is inconsistent; despite both undergoing equivalent levels of evaluation and optioneering, the consultant has erroneously determined them to be different.
- The failure of anchors is associated with failure mode CAT-F8 (spillway training wall),which SMM1 (Spillway training wall mass concrete buttress) directly addresses. The progression of this failure mode necessitates remediation by SMM1[30]. And further analysis will not change this necessity.
- A contingency plan is not an alternative to SMM1. Their zones of impact, design intent, and scopes are fundamentally different.
- Delays in implementing SMM1 significantly increases the risk of training wall failure, which ultimately would have substantial cost, operational and water security impacts.

The final report by Aither did not address all of these concerns.

WaterNSW has applied its rigorous and audited Dam Safety Management System (DSMS) to assess risks at Cataract Dam, ensuring that all assessments align with regulatory requirements and industry standards. The DSMS undergoes annual audits by Dams Safety NSW and IPART (as part of Operating Licence compliance with ISO55001) to confirm compliance and accepted practice.

Based on this thorough, expert-led process, WaterNSW is firm in its position that both SMM1 and SMM2 are reasonably practicable and essential. Their implementation is necessary to meet regulatory obligations, maintain water security, and ensure the safety of downstream communities.

WaterNSW maintains that our proposed capital expenditure for the project **$30.9 million** over three years provides the highest value for customers at the lowest sustainable cost.

1.4.4. Water Infrastructure Renewals (Excluding Warragamba Pipeline Renewals)

As part of its review, Aither has provided findings on a substantial renewals program consisting of 172 projects with a proposed expenditure of $270.4 million over five years. Given the scale of the program and the limited timeframe for review, it appears that Aither has adopted a simplistic top-down methodology for the renewal program. In WaterNSW’s view, this approach compromises the validity of the findings presented in the report.

[30] Day 3 (27 Nov 2024) - Cataract Dam Safety Upgrade – Presentation slide 11. Supplied under RFI RA-19C.

Aither's assessment of a sample of individual renewals projects acknowledges that "No major red flags were noted in these assessments. As with other completed options assessments the urgency of the work was not fully demonstrated however".[31]

Despite this conclusion that no "major red flags were noted in the assessments" Aither proposed a scenario (low) that would result in a substantial **$81 million (42%) reduction** in the proposed renewal program, reducing WaterNSW's proposed expenditure over three years from $193.7 million to $112.3 million.

This finding, based on an overly simplistic methodology, would force WaterNSW to defer projects that provide important benefits and service continuity to customers. These benefits will only increase over time, while the risks associated with deferring projects will escalate accordingly. WaterNSW wishes to highlight that we already deferred aspects of our renewals program based on project level prioritisation, as part of our **deferral of $344 million** in projects to the subsequent (i.e. 2031) determination period as part of our Greater Sydney proposed capital program.

IPART's adoption of the Aither lower bound estimate for this program and the significant reduction to our proposed investment over three years results in an unacceptable risk of an incident related to safety, environmental harm or interference of supply.

The analysis underpinning the proposed lower scenario for this project lacks rigour and WaterNSW would like to highlight several errors of fact by the consultant.

The description/ analysis of the prioritisation process utilised for Water Infrastructure Renewals included a number of factual errors as summarised below.

Table 17 – Prioritisation process – Water Infrastructure

Item	**Response**
Safety given equal weighting to other factors. "Typically, Safety would be given greater weight" pg.22	This is misleading – the corporate risk appetite statements upon which scoring is based reflect relative tolerance for different types of risk.
Statement that there is "no clear or measurable benefit due to the log scale" pg.22	This statement is incorrect. The calculation for benefit uses the benefit value without the application of Log scale.
The statement that the scoring system is "prima facie arbitrary"	This statement is incorrect/ misleading. The scoring is undertaken based upon a library of risk descriptors calibrated to the organisation's risk procedure.

1.4.4.1. Errors in the Aither report for the Water Infrastructure Renewals Program

The findings for the Water Infrastructure Renewals (excluding Warragamba Pipelines) included a number of errors in Box 7 on page 24 of the Aither report, including the following:

- Regarding the deferral of all moderate and low risk projects: "*The scenario carries a low risk due to the clear inference that medium and low benefits across the seven criteria provides only a medium risk of an incident related safety, environmental harm or interference of supply.*"

[31] Aither final report, page 21.

This statement is both inaccurate and misleading. The deferral of all projects as part of the low-expenditure scenario assessed as retiring moderate risks (78 projects, at a risk value of $500,000 each) or low risks (22 projects at a risk value of $25,000 each) does not in aggregate represent a low risk to WaterNSW or our customers. In fact, on the basis of the scoring methodology, these would appear in aggregate to represent a risk value of $39,550,000, being roughly the equivalent of two individual extreme risks.

On this basis, the exclusion of this expenditure appears to contradict the stated approach to determining low-range expenditure being to reflect "*the estimated minimum expenditure required to deliver essential services while seeking to balance affordability with service quality*."

- Project and program level findings do not align - the impacts of the proposed methodology and potential adoption of the lower bound scenario would result in two (33%) of the projects for which the reviewer stated: "…*on the whole the expenditure was deemed to be prudent and efficient*" (Pg 20) falling outside the allowance envelope. These projects include:
    - Greater Sydney rockfall stabilisation - a series of projects to keep our facilities, people and members of the community safe, and
    - Upper Canal monitor and respond - a project to cost efficiently manage the reliability of the canal supplying 15% of Sydney's drinking water.

WaterNSW maintains that that the Aither lower bound introduces unacceptable risks for customers and the community and that our original proposal investment of **$193.7 million over three years** ($270.4 million over five years) remains the best value for money.

1.5. Capital Expenditure - Digital

WaterNSW has concerns that Aither's approach for digital expenditure adopts a flawed methodology from Atkins and does not align to principles under the IPART Handbook for promoting customer value and ensuring the business achieves equitable and efficient cost recovery.[32]

Aither has extrapolated Atkins' methodology for digital expenditure in the Rural Valleys and has applied it to Greater Sydney - two vastly distinct operating environments.[33] Our concerns with the Atkins approach to digital expenditures, in addition the key differences between the Determinations (making extrapolation between the Atkins and Aither reviews impractical) are summarised below.

1.5.1. Summary of Atkins report findings

Our key concerns with the Atkins final report findings on our proposed digital expenditures are summarised below:

Flawed benchmarking approach

- The water sector presents challenges for benchmarking. Given WaterNSW's unique structure, benchmarking results should not be relied upon.
- A simplistic spend ratio is inadequate.

[32] IPART, Water Regulation Handbook, July 2023, Table 4.1, page 36 and page 2.
[33] Aither, Review of WaterNSW's forecast capital and operating expenditure for 2025-30 for Greater Sydney, 5 March 2025, Page 26.

- It is based on a flawed and overly simplistic benchmarking approach which lacks normalisation and makes little attempt to include relevant peers.

WaterNSW does not support removal of Water Insights under the upper range scenario

- Removal of Water Insights undermines the overall effectiveness of our digital strategy
- The proposed investment in the Water Insights Portal has been shaped by our customer engagement to deliver on customer expectations over the next regulatory period
- Removal of key programs that directly align to customer value is out of step with a core element of the IPART's 3Cs framework (*promote customer value*).[34]

WaterNSW considers the Atkins' ex post adjustments to WAVE are excessive

- The proposed reductions ignore long-term enterprise-wide benefits, the need to renew end of life complex systems and misinterpret benefits realisation.
- The proposed approach of stranding past capital expenditure is not consistent with the principles in the Handbook, noting WaterNSW spent below the Greater Sydney allowance overall during the current regulatory period.

Moreover, the approach taken by Atkins in benchmarking digital expenditures is problematic. The use of non-normalised benchmarks from various regulated and non-regulated firms does not consider the specific circumstances of WaterNSW as a bulk water provider with responsibilities to deliver services on behalf of the NSW Government (as it relates to WAMC). WaterNSW considers drawing such a causal relationship between the total capital program and the recommended digital allowance does not sufficiently recognise the nature of the activities and obligations WaterNSW is required to meet.

Further, the upper range excludes the Water Insights Portal[35], a critical part of WaterNSW's proposed plans to deliver on services central to the customer.

The consultants' approach to benchmarking and the Water Insights Portal are discussed in the sections below.

1.5.2. Flawed Benchmarking Approach

WaterNSW considers that the benchmarking methodology used by Atkins that was applied by Aither for Greater Sydney lacks rigour and is unsuitable for revenue-setting purposes. The benchmarking fails to account for WaterNSW's unique operating model as a bulk water provider covering metropolitan and rural services in addition to its role in delivering services to customers on behalf of the NSW Government (as it relates to WAMC). It also fails to consider increasing legislative requirements such as the Security of Critical Infrastructure Act and the Privacy Act and new operating licence requirements, all of which require investment in systems and processes to protect sensitive data.

Despite acknowledging some of the limitations of benchmarking, Atkins nonetheless uses it to justify reductions in WaterNSW's digital expenditure. Further, Aither appears to have extrapolated the Atkins benchmarking in its assessment of expenditure for Greater Sydney—an approach that risks undermining critical service delivery and security obligations.

[34] IPART Water Regulation Handbook, July 2023, pages 2, 36 & 108.
[35] AtkinsRéalis, WaterNSW - Rural Valleys Expenditure Review (2025), page 152

WaterNSW does not consider that the case has been made for the proposed reductions to the WAVE project and we specifically consider the 'low' and 'very low' ex post adjustments to not be viable options as they ignore long-term enterprise-wide benefits and misinterpret benefits realisation.

WaterNSW considers Atkins' use of benchmarking is fundamentally flawed and of limited use for revenue setting purposes. It draws on a series of regulated and non-regulated firms and has not been normalised for the specific operating environment of WaterNSW, particularly its status as a WAMC agency delivering services on behalf of the NSW government. While Atkins has listed several of the limitations in the draft report, they nonetheless use the findings to support their recommended digital expenditures. While comparing to benchmarks has some utility in theory, benchmarks provide little if any useful guidance for our purposes without an extensive normalisation approach that does not appear to have been undertaken.

WaterNSW is a complex business, including in its geographical area, the diversity of digital services required to be delivered across its area of operations, and in its delivery of services on behalf on the NSW Government to the community. There are no examples that we are aware of in the water sector that involve such a diverse function.

WaterNSW contests the benchmarking methodology used by Atkins, based on the following:

- **WaterNSW's unique operating environment and role require a more nuanced approach:** WaterNSW's dual role in metropolitan and regional water delivery and management, coupled with its responsibilities for WAMC, sets it apart from other water utilities. Atkins' selection of urban water utility comparators, including retail utilities and those with combined urban water and wastewater services, lacks relevant comparability. It is not clear whether Atkins has attempted to normalise data from the selected peers to provide a more meaningful comparison. [36]
- **Industry trends are likely to provide better insight:** Atkins' benchmarking approach does not acknowledge sector-wide cost pressures. Their approach of applying a generic and non-contextual comparison does not reflect the regulatory, security, and operational realities shaping digital investment.
- WaterNSW's cloud computing costs are projected to increase at 16%[37] per year, which compares favourably with the average increase across NSW Government at 26% per year (2% month on month).[38] Adopting cloud computing adopting is critical for business and there is a trend of increasing reliance among businesses - Gartner (2023) predicts that more than 50% of enterprises will rely on cloud platforms by 2028. Further, by 2028, most organisations will consider cloud as a business necessity.[39] In the US, the cloud computing market size is expected to grow at a compound annual growth rate of 21.2% from 2024 to 2030 and 20.3% between 2024-2030.[40] Considering both these growth rates, it is evident that **WaterNSW's predicted growth rate of 16% compares well with domestic and global trends.**
- WaterNSW maintains our proposed growth rates - that increases in operating expenditure are driven by essential and uncontested cost drivers, including software licensing, cybersecurity, and compliance with Security of Critical Infrastructure (SOCI) legislation[41] - are a better reflection of the

[36] AtkinsRéalis, WaterNSW - Rural Valleys Expenditure Review (2025), pg. 149
[37] WaterNSW, Attachment 11 Digital expenditure, 30 September 2024, page 27
[38] Department of Home Affairs, Cyber and Infrastructure Security Centre, 2022, Regulation impact statement: a risk management program framework for critical infrastructure assets, available at < https://oia.pmc.gov.au/sites/default/files/posts/2023/02/Impact%20Analysis.pdf >
[39] Gartner, 2023, Garner Says Cloud Will Become a Business Necessity by 2028, available at < https://www.gartner.com/en/newsroom/press-releases/2023-11-29-gartner-says-cloud-will-become-a-business-necessity-by-2028#:~:text=The%20Role%20of%20Cloud%20in%202023&text=Gartner%20predicts%20that%20more%20than,necessity%20(see%20Figure%201)>
[40] Grand View Research, Cloud Computing Market Size & Share, Industry Report, 2030
[41] WaterNSW, Attachment 11 Digital expenditure, 30 September 2024, page 38

likely trend costs for digital expenditures required over the 2025 determination period. Similar trends are also observed among industry peers such as Greater Western Water (GWW)[42], Yarra Valley Water[43] and SA Water[44]. Benchmarking, when detached from these critical business drivers, becomes a flawed exercise rather than a meaningful evaluation tool. Digital investment trends must be assessed within their industry-specific context, not in isolation.

- For other areas of digital expenditure, Yarra Valley Water forecast increasing trends in digital licensing, maintenance and support costs over its next two regulatory periods. It forecast its annual average for these costs to represent an annual average of $17.72 million out to 2033. [45] For reference WaterNSW's forecast for software licensing & maintenance for 2029-30 is $11.45 million.[46] For cyber security it forecast an annual average expenditure of $1.61 million between 2023 and 2033 (operating expenditure). [47] SA Water, has forecast its cyber expenditure to be $22.6 million in capex and $9.5 million in operating expenditure (total expenditure of $32.1million) over 2024-2028.[48]

  In the absence of conducting a robust benchmarking assessment that considers relevant market peers and normalises for key factors such as the asset base, land area size and customer numbers, drawing comparisons to industry trends if done properly can support better identification of performance.

- **A simple spend ratio is inadequate:** Atkins have used a simplistic ratio of digital spend as a percentage of overall business spend. We question the value of this given WaterNSW's uniqueness and requirements to deliver services across three determinations.
- **A totex-based benchmarking approach is misleading:** Atkins' use of 'totex' will likely yield understated results as capital investment is non recurrent (compared with operating expenditure) and can vary significantly between utilities depending on where they are in relation to investment cycles (e.g., steady state, maturity uplift etc).

We question the need for benchmarking if it does not yield valuable insights: WaterNSW recognises the limitations of benchmarking and has attempted to demonstrate the appropriateness of directions in its expenditure by referring to water businesses experiencing similar challenges.

We welcome IPART's draft finding to not use the lower bound recommendations from Atkins and question the ongoing use of a 'lower bound' approach.

1.5.3. Importance of the Water Insights Portal

While the upper range scenario is generally acceptable, WaterNSW does not support the removal of the Water Insights Portal ($7.8 million)[49] based on the following concerns:

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[42] Greater Western Water, 2024 Price Submission, available at <https://media-2.yvw.com.au/inline-files/29092022%20ESC%20-%20YVW%20Price%20Submission_0.pdf>
[43] Yarra Valley Water, 2023-28 Price Submission, available at <https://media-2.yvw.com.au/inline-files/29092022%20ESC%20-%20YVW%20Price%20Submission_0.pdf>
[44] SA Water, 2024-28 Regulatory Business Plan, available at < https://www.sawater.com.au/__data/assets/pdf_file/0011/747074/Regulatory-Business-Plan_RD24-submission.pdf>
[45] Yarra Valley Water, 2023-28 Price Submission, Page 218
[46] WaterNSW, Pricing Submission 2025-30, Attachment 11
[47] Yarra Valley Water, 2023-28 Price Submission, Page 218
[48] SA Water, 2024-28 Regulatory Business Plan, Page 193
[49] AtkinsRéalis, WaterNSW - Rural Valleys Expenditure Review (2025), pg. 152

1. **Water Insights is essential for customer and community engagement:** The Water Insights Portal is essential for community engagement, information dissemination and proactive customer notifications. Its removal would hinder our ability to drive better outcomes for the community through building public trust and supporting informed decision making. The project is a key platform to achieve the central theme of the Water Regulation Handbook, *promote customer value.*[50]
2. **Interconnected digital investments:** WaterNSW's digital investments are interconnected, and the removal of a critical component like Water Insights undermines the overall effectiveness of our digital strategy. Further, WaterNSW disagrees with Atkins' statement that community engagement, information, and education are "not mandatory or core". For instance, clause 6 of the WaterNSW Operating Licence states that WaterNSW is authorised to *undertake an educative role in the community*. Clause 24 states that WaterNSW must maintain a community education strategy. Clause 26 states that WaterNSW must regularly engage with the community on several matters and must use all *reasonable endeavours* to ensure it engages with all customer groups and the general community (including the provision of adequate information to allow meaningful engagement with customers and the community).[51] In fact, IPART's 3Cs Handbook states "*customer and community engagement is a cornerstone of the 3Cs framework*".[52] WaterNSW's digital strategy is a holistic vision and piecemeal adjustments will undermine its effectiveness.
3. **Customer expectations and transparency**: Removing the Water Insights Portal would fail to meet the community's growing expectations for transparency, ultimately making it more difficult for WaterNSW to maintain public confidence in our operations, as public attitudes continue to evolve. WaterNSW strongly believes that the Water Insights Portal is a core investment that aligns with regulatory principles of customer transparency, engagement, and education. Further information about the key benefits to customers through the Water Insights portal is provided in our submission (WaterNSW Top 10 Projects – Water Insights and Appendix 4 NSW Water Sector Shared Technology Ecosystem Roadmap and Attachment 11).[53]

WaterNSW undertook comprehensive customer and community engagement as part of its commitment to better listen and respond to customers, stakeholders, and the community it serves. Insights and learnings from this engagement shaped the revenue proposal. Customer Advisory Groups were consulted in July 2023 with "Better engagement and relationships" being identified as one of the desired future outcomes.[54] This included WaterNSW providing more proactive and broader communications, access to more information and improvements to the customer experience such as faster and easier applications. An online customer experience portal and one data platform between the water agencies were specific proposals included as actions in response to customer and stakeholder feedback.

The proposed investment in the Water Insights Portal has therefore been shaped by the customers to deliver on customer expectations over the next regulatory period.

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[50] IPART, Water regulation Handbook, July 2023, page 2.

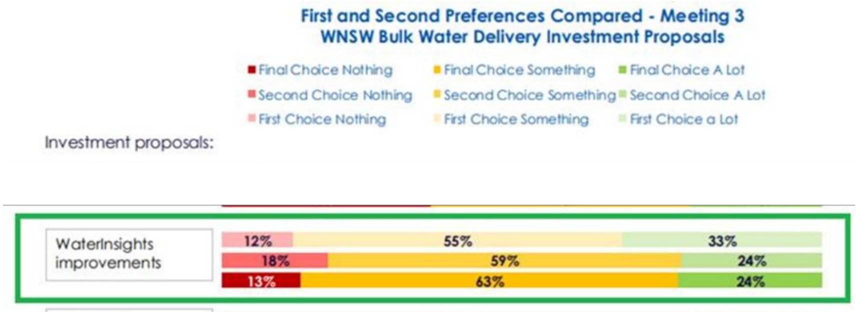
[51] Clause 6, 24, 26; https://www.waternsw.com.au/documents/publications/general-publications/strategies,-plans-and-policies/WaterNSW-Operating-Licence-2024-2028.pdf

[52] IPART, Water Regulation Handbook, July 2023, page 28.

[53] Attachment 7, WaterNSW Top 10 Projects – Water Insights. Appendix 4 NSW Water Sector Shared Technology Ecosystem Roadmap. Attachment 11, Digital Expenditure.

[54] WaterNSW Pricing Proposal 2025-2030, Customer and Community Engagement Report – Phase 2 Outcomes, April 2024, page 27.

Figure 12– Water Insights Portal



The removal of the Water Insights Portal contradicts both customer priorities and IPART's performance measures as discussed below. It jeopardises transparency, increases long-term operational costs, and weakens WaterNSW's ability to serve its stakeholders effectively.

1.5.3.1. Water Insights Performance Measure

In its draft determination, IPART introduced a new performance measure to increase uptake of the Water Insights Portal.[55] This measure reflects a clear regulatory expectation that WaterNSW should enhance transparency, customer engagement, and data accessibility through the Portal.

However, IPART's consultant (Atkins) recommended removing the proposed $7.8 million investment in the Portal during the determination period. This recommendation is fundamentally inconsistent with the performance measure and undermines WaterNSW's ability to deliver on IPART's stated objectives.

IPART's Handbook emphasises that performance measures should be credible, achievable, and aligned with customer outcomes. Introducing a measure to increase uptake of the Water Insights without providing the necessary funding:

- undermines the credibility of the performance framework
- risks setting a precedent where utilities are held accountable for outcomes they are not resourced to deliver
- contradicts IPART's guidance that performance measures should be supported by appropriate investment and planning.

It is incorrect for Atkins to conclude that the Water Insights Portal is not necessary. WaterNSW identified several limitations in our current systems that hinder effective customer communication in line with the 3Cs framework. The Water Insights Portal directly addresses these gaps by providing a centralised, real time platform for water usage, billing impacts and service updates and by establishing communication which is tailored to customer preferences. Furthermore, our engagement with customers revealed a strong desire for better access to information and enhanced online tools.

In addition, IPART has explicitly written to WaterNSW in past reviews:

- asking WaterNSW to write to customers to explain the impact of IPART decisions and regulatory processes

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[55] See table 11.3 of the IPART Draft Decision. Water Insights Portal is also required to support any proposed performance measure on *Good Customer Experiences.*as per Table 11.3 (e.g., number of meaningful engagements and survey responses).

- asking WaterNSW to write to customers to notify customers of upcoming regulatory decisions (e.g. Yanco Creek Levy Survey on IPART's request[56], Metering Decisions, Information Papers)
- seeking improved consultation with customers and IPART

The Water Insights Portal will also be instrumental in fulfilling these obligations by providing a dedicated space for WaterNSW to communicate with and publish and explain decisions that impact customers, and to also enable targeted messages based on customer preferences by supporting consultation features such as surveys, and electronic feedback forms.

Given that IPART has introduced a performance measure to increase uptake of the Water Insights Portal, it is inconsistent to simultaneously not provide funding for the investment required to deliver that outcome. We recommend that IPART reinstate the $7.8 million proposed investment in the Water Insights Portal to ensure WaterNSW can deliver on the IPART 3Cs framework and for WaterNSW to address capability gaps in current customer experience systems.

1.5.4. WAVE Program capital expenditure in 2020 Determination period

Aither and Atkins found that expenditure over the current determination was "mostly reasonable" but recommended a **downward adjustment of $4.0 million** for Greater Sydney for digital expenditure over the period, due to a significant reduction in benefits being delivered by WaterNSW's Water Value Added Environment (WAVE) program.

The significant and largely unjustified ex post reductions to the WAVE program under the 'very low' scenario, whereby only the benefits are included in the RAB, suggests a lack of understanding of WaterNSW's role in the NSW Water Ecosystem by the consultant. [57]

The Atkins lower bound recommendation **strands $17 million** of the project cost across all the three WaterNSW determinations, with the $4.0 million reduction being the Greater Sydney component (approximately 24% of the total costs).

Atkins' recommended downward adjustment is based on expected future efficiency savings from the program.

WaterNSW does not agree with the Atkins *ex post* adjustments in its 'lower range' and 'very low range'. While WaterNSW has acknowledged $1 million of potentially inefficient spending as outlined in the Aither upper range, the IPART recommendation to accept the Atkins' lower range results in ex post adjustments of -$17 million across our three determinations, which we find unjustified and excessive.[58]

In making these recommendations, we believe the consultant has erred in the following ways:

- **Disregard for program complexity**: Throughout the current determination period, the WAVE program evolved significantly. Driven by the need to replace end of life systems, changing needs of our WAMC partners, DCCEEW and NRAR, its complexity increased, with the scope now encompassing indirect and societal impacts. This expansion, along with an extended delivery timeframe, was approved by WaterNSW's Board, as it was considered to be in the best interest of our customers' and public's interests. Failing to acknowledge this evolution oversimplifies the

[56] See page 151 *Water NSW supported IPART in engaging 75% of the customer base though an online feedback form via emails*: https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Final-Report-Review-of-Water-NSWs-rural-bulk-water-prices-September-2021.PDF

[57] AtkinsRéalis, WaterNSW - Rural Valleys Expenditure Review (2025), Table 5-6, page 151.

[58] AtkinsRéalis, WaterNSW - Rural Valleys Expenditure Review (2025), pg. 14

program's scope and undervalues its critical role in delivering long-term benefits to customers and the broader community

- **Misalignment to the 3Cs framework**: Atkins states that the lower range would "represent a very significant reduction from WaterNSW's forecasts" and that it is "not suggesting that WaterNSW could live within this envelope of expenditure".[59] Atkins' lower range, which it acknowledges is not sufficient, would appear be misaligned to a key principle of IPART's 3Cs framework, to ensure "equitable and efficient cost recovery".[60]
- **Little justification for very low range**: There appears to be little justification or rationale for how to very low range has been determined. Removing any benefits not delivered to the business from the Digital portfolio is not justified given Digital is a delivery body and not necessarily the beneficiary. The only justification the consultant appears to have provided is "holding WaterNSW accountable for non-delivery of benefits".[61]

WaterNSW is also concerned over the Atkins' approach to benchmarking.[62] As the recent UK review of the water sector has highlighted, the use of benchmarking is problematic:

> *But in more recent decades performance of the industry has plateaued as the public goods demanded of the water industry have grown. In response Ofwat has developed and intensified its use of econometric tools and industry wide* ***benchmarks****. The Commission recognises the motivation behind this. But* ***our assessment is that this has taken this approach beyond the limits of its effectiveness*** *and, indeed, to a point where it may have become* ***counterproductive in terms of the performance of the industry as a whole and its ability to attract investment*** [emphasis added].[63]

Under the WaterNSW Act, we are required to ensure continuity of supply within our water supply agreements. The implementation and upkeep of modern ICT security systems support this obligation by safeguarding the reliability and security of supply services; they are not solely based on 'bankable' quantitative benefits but also based on mitigating significant qualitative business and regulatory risk. WaterNSW faced significant risks in continuing to rely on the legacy systems established in the early 2000s which pre-date WAVE, and which were no longer adequate to support reliability and security of supply.

Functions of the legacy systems could not keep pace with rapid changes in the regulatory framework (e.g. Requirements for access to water data, NSW metering policies and the NSW Flood Plain Harvesting Policy for which there is a specific WAVE project). We have demonstrated that the required investment was essential to advance and mature our ICT capabilities. We acknowledge Atkins' observation that "*better planning could have led to a more efficient outcome."*

However, WaterNSW has actively sought to minimise cost overruns and has adjusted project scope where it was efficient to do so. The implementation of ICT systems remains inherently complex due to evolving technological changes and implementation requirements throughout the project lifecycle. Our investment in WAVE was a critical step in aligning WaterNSW's ICT capabilities with those of our industry peers.

The proposed lower-range adjustments to WAVE are unrealistic, excessive, and fail to recognise the essential role of technology as an enabling function for digital transformation delivery

WaterNSW strongly opposes the approach of writing off any component of the past investment below the Aitkins upper bound (i.e. $1 million). We seek IPART's reconsideration of this matter and to not accept the additional $16 million stranding of assets of the project based the Atkins' lower range (across our three

[59] AtkinsRéalis, WaterNSW - Rural Valleys Expenditure Review (2025), page 157
[60] IPART, Water regulation handbook, July 2023, page 36
[61] AtkinsRéalis, WaterNSW - Rural Valleys Expenditure Review (2025), page 151
[62] AtkinsRéalis, WaterNSW - Rural Valleys Expenditure Review (2025), page 157
[63] Sir Jon Cunliffe (Chair of the Independent Water Commission) speech on the UK Independent Water Commission final report Sir Jon Cunliffe: Speech on the Independent Water Commission final report - GOV.UK

determinations) drawing on an untested and unconventional approach of "total / bankable benefit" by the consultants that would provide a strong disincentive to invest in technology moving forward.

1.5.4.1. Inconsistency with IPART's 3Cs Framework

In addition, the proposed cuts to the WAVE program appears inconsistent with IPART's own water pricing framework, which states that ex-post capital expenditure reviews should be conducted by exception and not by default (see Page 13 of the IPART Handbook). IPART outlines specific triggers for such reviews, including significant overspending, repeated deferrals, or clear underperformance none of which have been demonstrated in relation to the Greater Sydney capital performance. In fact, WaterNSW has underspent against the Greater Sydney current period capital allowance, further undermining the rationale for a retrospective reduction.

The WAVE cuts are also inconsistent with IPART's commitment to an envelope based approach that avoids IPART mandated project level micromanagement and supports long term planning aligned with customer outcomes. IPART stated in its final technical paper that:

> *Our framework seeks to promote **good performance over time. Our framework does not 'approve or disallow' individual projects**, rather it is a model that rewards businesses that demonstrate, through its performance and reporting, that it is delivering services that meet customers' preferences*

Atkins have not considered the fact that the benefits of WAVE (and most ICT projects of this nature) will be generated over time consistent with the IPART technical paper guidance. Instead, the Atkins findings are too heavily focused on whether all the benefits of WAVE have been observed immediately within the short 9-month price review timeframe even though the WAVE systems (i.e. Water Market Systems) have only been recently commissioned and partly implemented for new customers only.

In addition, Atkins have stated that *they have not seen any evidence that the $3.1m per annum in savings have or will be realised through the current budget* however such comments ignore the efficiencies proposed by WaterNSW and those efficiencies embedded in our base year outlined in Attachment 9 Efficiency Program of our 2024 pricing proposal. By Atkins own account, they note that $3.1 million per annum in savings are included in the 2023-24 operating expenditure which has been selected by IPART as the base year and hence these savings will be passed onto customers. By selectively targeting the WAVE program, IPART risks undermining the credibility of its own 3Cs framework and providing disincentives to invest in technology.

1.5.4.2. Insufficient explanation for the proposed cuts and consideration of FTI consulting findings

Atkins proposed substantial reductions relating to the WAVE project ranging from $1 million across the three determinations in the upper range to $17 million in the lower range. Atkins also provided a 'very low range' where a $47.5 million was suggested, which WaterNSW considers to be illogical, impractical and outside the terms of its engagement.

In the draft determination, IPART adopts the Atkins' **lower range** recommendation to reduce past capital expenditure for the WAVE project by $17 million across the three determinations (a $4 million reduction for Greater Sydney). The proposed lower range focuses on "bankable benefits that should be enabled in the future".

In reviewing digital costs, Atkins acknowledged the significant "complexity and associated challenges" involved in the delivery of the WAVE project. For example, in a footnote provided by in its final report, Atkins stated that a key costs overrun / challenge involved:

> *...expenditure is primarily related to the need to maintain a two-way synchronisation of data between the new platform (WMS) and the legacy platform – Water Licensing System (WLS). Substantial complexity is involved in the platform synchronisation due to the fundamental asynchronous underlying technology of the two platforms, sheer volume of customer records that also require extensive validation due to the Personally Identifiable Information (PII) nature of customer data, and the need to retain both platforms until all functionality in WLS can be replaced by WMS.*

Nowhere does Atkins conclude that this is an unavoidable cost or unacceptable risk to the business, nor is there any commentary that the costs are not appropriate to be included in customer charges (synchronisation and storage of customer data on a new modern platform)

In addition, Atkins places no weight on the FTI consulting report commissioned by IPART, which recognised WaterNSW's effective response to unforeseen costs and scope changes. Instead Atkins ignores the FTI findings and focuses its discussion on short term bankable benefits with no discussion on the need to address regulatory and business risk.

Atkins quoted FTI Consulting which noted that: *"overall, delivery of functional outcomes has been good, although there have been some user acceptance issues"*.

However, FTI Consulting also concluded that:

> *These are complex and typically relate to some degree of mismatch between pre-conceived end user expectations (in the operational areas affected) and the delivered products.* ***In our experience with similar projects in large water utilities, this is not unusual****. These issues are currently being worked.*

The FTI consulting report also noted WaterNSW's proactive governance, including approved budget variations, change management and response to market engagement and integration complexity. WaterNSW considers that this demonstrates an adaptive approach.

We submit that these points are not signs of poor planning; rather, they are a reflection of the inherent complexity of large scale digital transformation.

WaterNSW considers that the leap by Atkins from acknowledging complexity in the delivery of complex ICT systems to recommending a substantial write off of $17 million is ignores the practical realities of implementing modern large scale ICT systems.

1.6. Building blocks and pricing considerations

1.6.1. Rate of return

IPART has used its standard WACC approach to calculate a post-tax real WACC of 3.6% for WaterNSW's draft prices. This is the same as the 3.6% WACC that WaterNSW used to calculate the revenue requirement in our September 2024 pricing proposal, noting that the input parameters have changed since that time and the resultant WACC is based on a three-year determination period rather than five years.

WaterNSW accepts IPART's draft findings on the rate of return for the Greater Sydney determination.

1.6.2. Depreciation

WaterNSW supports IPART's draft findings with respect to the return of capital (regulatory depreciation) and IPART's approach to calculate depreciation for new assets on a disaggregated basis, as this would better match the actual profile of asset consumption through time (while maintaining the existing approach to depreciating existing assets to support a transition from the old to new approaches over the medium- to long-term).

We note that the IPART 2020 determination decision was to separate capital expenditure into 11 new categories for the purposes of calculating depreciation. In our pricing proposal, WaterNSW's actual 2019-20 capital expenditure was provided in the 11 new categories. However, IPART did not use the 11 new categories for the purposes of calculating the depreciation allowance for the 2019-20 capital expenditure.

We request that IPART allow the 2019-20 capital expenditure to enter the RAB under the 11 new categories as this is consistent with the intent of the 2020 determination, and the benefits of calculating the depreciation allowance on an disaggregated basis (e.g. improved cost reflectivity, to avoid pricing inefficiencies, ensuring the depreciation allowance can better match the asset life to cost recovery, and the need to avoid intergenerational inequity among other benefits).

The proposal will lead to an increase in the revenue requirement to fund the depreciation of new assets created in 2019-20 under a more sustainable and cost reflective glide path as illustrated in the tables below. **Table 18** illustrates the notional revenue requirement uplift arising from capital expenditure that enters the RAB in 2019-20 on a disaggregated basis, both for the three-year determination period starting in 2025-26 and for 2024-25 (the deferral year).

Table 18 – Impact of using 2019-20 disaggregated capital expenditure ($millions, $2024-25)

	3-year Revenue Requirement Total (NPV)
Draft Determination	$772.2
2019-20 Capex disaggregated	$816.5
Change	$44.3
Change: 3-year Proposal period	*$29.9*
Change: 2024-25 true up*	*$14.4*

* The total change of $44.3 million includes the uplift to the 2024-25 for the deferral year true-up to be recovered over the next three years.

As illustrated above, implementing a disaggregated approach to capital expenditure in 2019-20 (consistent with IPART's current determination methodology as noted above) results in a higher depreciation allowance and other adjustments that lead to an increase in the three-year revenue requirement commencing in 2025-26 of **$44.3 million** that includes the adjustment for the deferral year (2024-25) of $14.4 million.

1.6.3. Disposals

According to the simplified asset disposals policy in the new 3Cs framework, IPART will consider any adjustments to the RAB on a case-by-case basis. WaterNSW submits that in 2024-25, $21.29 million in drought planning desalination works will be transferred to Sydney Water Corporation as part of an equity transfer as the responsibility for this function no longer resides with WaterNSW.

The update represents a minor update to our September 2024 proposal, reflecting the publication of the June 2025 CPI.

We request that the closing RAB for the desalination asset class should equal zero by the end of 2024-25 as shown below:

Table 19 – Greater Sydney SDP Disposals ($millions, $2024-25)

	2024-25 Draft Determination	2024-25 Response	Change
Disposal			
Major Facilities - Sydney DP project	$15.90	$15.86	-$0.05
Major Facilities - Illawarra DP project	$5.23	$5.44	$0.21
Closing RAB			
Major Facilities - Sydney DP project	-$0.05	$0.00	$0.05
Major Facilities - Illawarra DP project	$0.21	$0.00	-$0.21

WaterNSW has also reviewed the asset disposal draft finding and noted that IPART has deducted 100% of the value of depreciating minor assets. This is inconsistent with the IPART asset disposal policy, where 50% of the value of the asset is shared with customers (via the reduction of the RAB) and 50% of the value is retained by the regulated entity. We request that IPART amend the disposal for the RAB in the final determination as per the table below to align with the IPART disposal policy[64]:

Table 20 – Greater Sydney minor disposals ($millions, $2024-25)

Minor disposal	2025-26	2026-27	2027-28	2028-29	2029-30
Draft Determination	$0.48	$0.48	$0.48	$0.48	$0.48
Response	$0.24	$0.24	$0.24	$0.24	$0.24
Required adjustment to the RAB	$0.24	$0.24	$0.24	$0.24	$0.24

1.6.4. Pricing structures and form of control

WaterNSW notes IPART's draft decision to not adopt a revenue cap to manage volume risk for bulk water provided to Sydney Water in Greater Sydney. IPART's rationale for maintaining the status quo in Greater Sydney is on the basis that customer engagement in Rural Valleys (i.e. the consultation process, information provided the options provided and the lack of information on the impact of a revenue cap to customer bills and sample size) will be addressed in our response to the upcoming Rural Valleys determination.

However, we note for Greater Sydney that IPART appears to have rejected the revenue cap on the basis that IPART is not convinced that WaterNSW's revenue is as volatile as it suggests. IPART states the following:

> *The revenue that WaterNSW receives from Sydney Water is 80% predictable and reliable. The amount of revenue that comes from variable charges to Sydney Water is relatively stable as demonstrated by Sydney Water's Demand Volatility Adjustment Mechanism (DVAM). The DVAM for Sydney Water shows a variation in demand of 5% (for 2012-13 to 2015-16); 5.8% (for 2016-17 to 2018-19); and -9% (for 2019-20 to 2023-24). That is, the volatility in WaterNSW's revenue from Sydney Water was approximately 1%-2%.*
>
> *The revenue from Sydney Water comprises of 80% of the total revenue that WaterNSW receives from both Sydney Water and its regional and rural customers. Taken together, the amount of WaterNSW's revenue that comes from fixed charges is around 74%. However, if we include the proportion of Sydney Water charges that are deemed variable but are in fact largely stable, the proportion of WaterNSW's revenue that is predictable and*

[64] Page 96 https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Handbook-Water-regulation-July-2023-V2.PDF

reliable is 88%. This would indicate that WaterNSW's exposure to revenue volatility is predominantly only to variation in usage for the regional and rural customers.

As stated above, taken as a whole entity, WaterNSW's revenue is largely predictable and reliable at 88% and the remaining 12% is unlikely to be zero for any given year. For the Greater Sydney component, there is very little revenue volatility and therefore we do not consider a change to a revenue cap is warranted.

WaterNSW notes that one approach to managing revenue risk is through tariff structures, while other options include changes to the form of control (e.g. revenue cap) and mechanisms under a price cap to adjust for volume variations.

IPART has approved a demand volatility adjustment mechanism (DVAM) for the all the other water utilities it regulates to manage volume risk under a revenue cap. The DVAM effectively operates by setting a DVAM threshold at ± a specified volume, whereby thereby the water utility is only able to recover the difference between its actual sales and the 5% ceiling, if the difference is greater than ±5% over the price determination period. IPART makes DVAM adjustments in the determination period after the differences have occurred.

We wish to highlight that a DVAM is applied to Sydney Water to manage volume risk based largely on the bulk water provided by WaterNSW. WaterNSW finds it contradictory that the volumes that WaterNSW supplies to Sydney Water is appropriate to form the basis of a DVAM for Sydney Water to manage volume risk, but not variable enough to apply to WaterNSW. We note that IPART proposes to apply the DVAM in Sydney Water's draft determination that would result in Sydney Water recovering $317 million over the upcoming regulatory period due to a revenue under-recovery. IPART's assessment is reproduced below:

6.7.1 We have included $316.7 million to compensate Sydney Water for under-recovered revenue because of lower than forecast demand

Under the price cap approach, we use a demand volatility adjustment mechanism (DVAM), to adjust for any over- or under-recovery of revenue resulting from actual demand being different to forecasts. The DVAM protects businesses from under-recovery due to lower than forecast water sales and protects customers in the case of any over-recovery through bills.

In 2020, we set the DVAM threshold at ±5% for Sydney Water. This means Sydney Water is only able to recover the difference between its actual sales and the 5% ceiling, if the difference is greater than ±5% over the price determination period. This 5% threshold incentivises businesses to accurately forecast and manage water sales. We make DVAM adjustments in the determination period after the differences have occurred.

Between 2019 and 2024, Sydney Water's actual demand was lower than its forecast demand. As a result, it under-recovered revenue compared to what was initially forecast. We applied our DVAM calculation method to calculate a draft revenue adjustment of $316.7 million to account for demand volatility over the 2020 determination period. This is consistent with what Sydney Water calculated in its pricing proposal, adjusted for actual 2023–24 volumes. [65]

IPART should not be concerned as to the proportion of fixed charges when considering whether to introduce a DVAM for WaterNSW for Greater Sydney on the basis that it might not be triggered in the upcoming regulatory period. Whether it is triggered or not should not, however, does not detract from the DVAM's usefulness as a risk management tool to be included in the determination if IPART is not minded to further increase the proportion of fixed charges or move to a different form of control (e.g. a revenue cap).

[65] IPART, *Sydney Water prices 2025-2030 Draft Report - May 2025.* Page 84.

It is important to note that if the DVAM is triggered and leads to a revenue shortfall for WaterNSW, then this revenue shortfall would not be due to inefficiency, poor planning or forecasting[66], but rather external factors like weather, population growth rates, housing construction, Sydney Water's capital expenditure to service new suburbs and growth sites, and water restrictions all of which are outside of WaterNSW's control.

It is contradictory that IPART will not provide WaterNSW with the same level of protection from external factors afforded to other IPART regulated entities for which the DVAM applies, such as Sydney Water, Hunter Water, Central Coast Council, and Essential Water (among others). With regard to addressing external factors, the same principles should apply to all IPART regulated entities.

WaterNSW considers that the application of a DVAM is entirely appropriate for Sydney Water and, should IPART continue to apply a price cap for Greater Sydney bulk water services, is also entirely appropriate for WaterNSW.

We consider that the adoption of a DVAM for Greater Sydney - as consistently applied by IPART for the other water utilities it regulates - would be a straightforward, transparent and costless approach to managing volume risk under a price cap.

1.7. Cost pass-throughs

1.7.1. Warragamba Deep Water Pumping pass-through

WaterNSW recognises the importance of ensuring that any cost pass-through mechanism is robust, transparent, and consistent with good regulatory practice. We appreciate IPART's preliminary view that the proposed Warragamba Deep Water Pumping Station (DWPS)) cost pass through mechanism may be a viable mechanism to recover the efficient cost incurred in relation to the DWPS.

During the price review process, WaterNSW had argued that a DWPS cost pass through mechanism modelled on the existing Shoalhaven Transfers Mechanism would be consistent with good regulatory practice and would serve the long-term interests of customers. Whilst we note IPART's comment that the DWPS has not yet been triggered, we note that its energy and operational requirements can be reasonably modelled using engineering estimates and benchmark electricity costs, (per the Shoalhaven Transfers pass through mechanism as electricity cost are based on the generic benchmark electricity cost in NSW). We agree with IPART's view that the absence of historical operation does not preclude robust modelling.

As an interim measure, we propose that IPART implement the DWPS cost pass-through mechanism during the upcoming determination period using the Shoalhaven Transfers composite factor of 1.96 MWh per ML, with a commitment from WaterNSW to update the composite usage factors in the subsequent period using detailed engineering estimates.

WaterNSW is committed to trueing up the costs associated with the DWPS mechanism to reflect any changes in composite factors between the current and next determination periods, to ensure that only efficient costs are passed through to customers. We look forward to working with IPART in the lead up to the next pricing review to ensure the DWPS cost pass-through mechanism is implemented in full over the next determination period.

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66 WaterNSW's ability to influence the usage forecast is limited. Noting WaterNSW is forced to rely on Sydney Water's forecast due to the principle applied by IPART to ensure that the Sydney Water and WaterNSW usage forecast aligns. We understand that the WaterNSW and Sydney Water Price Determinations have never been set using usage forecast that do not align (the WaterNSW Determination usage forecast is limited to deducting a loss factor from the Sydney Water end user forecast set by IPART). The usage forecast can differ from actual usage due to several reasons; these include external factors, but can also include regulatory error by IPART who ultimately set the usage forecast and loss factors for both the Sydney Water and WaterNSW Determination.

1.7.2. Projects undertaken for Government pass-through and general pass-throughs

In the draft determination, IPART's draft finding is to not accept WaterNSW's proposal to introduce a pass-through mechanism for projects undertaken on behalf of the NSW Government or general pass throughs (e.g. regulatory, service standard, tax, natural disaster and terrorism events). In not accepting the WaterNSW proposals, IPART states that:

> *We consider that without knowing costs (or even whether there will be any costs) we cannot allow this pass through. The event is not clearly defined and there is no 'trigger' that would start the mechanism, WaterNSW has not proposed any way to assess the efficiency of any costs that are incurred, and we do not have the confidence that WaterNSW has no influence over whether the event occurs. Therefore our draft decision is not to accept this mechanism.*[67]

WaterNSW's approach to cost pass-throughs was set out in our original proposal. In summary:

> *In providing regulated services, WaterNSW is exposed to a range of risks that may influence the costs of providing services, or the revenues we receive from providing services. These costs and/or revenues may differ from those assumed by IPART in making its determination. This creates a risk that WaterNSW over or under recovers the efficient cost of providing services, as well as a risk that prices do not reflect the cost of efficiently providing these services.*
>
> *Cost pass-through mechanisms are a common element of incentive-based regulatory frameworks. They are used to manage the risk associated with external events that occur within a determination period – events that are outside the control of the business but have a material impact on costs and hence the financial position of the firm. These risks are unable to be adequately managed through internal risk management, insurance or self-insurance. Examples can include natural disasters where insurances may only cover a portion of the total costs of addressing the event.*
>
> *WaterNSW has applied a framework for cost passthroughs based on 'nominated' and 'general' events.*
>
> ***Does this pass all risk through to customers?***
>
> > *No. Any change event should pass the threshold test of "if the event was known at the time of the determination, would the associated costs likely have been included in revenues and prices?". If yes, then a pass-through is simply a process to incorporate the efficient costs of providing bulk water services if or when the event occurs, rather than forecasting the costs at the start of the period or tracking the costs until the subsequent regulatory period.*[68]

One of our proposed 'nominated events' is projects undertaken on behalf of Government:

> *Projects we undertake as a result of a Government-led business case and investment decision. For example, the pipeline which would connect Lostock and Glennies Creek dams, transferring Lostock inflows that would otherwise be spilled and emergency drought projects.*[69]

WaterNSW considers the question of whether a clearly defined 'trigger' is in place is a straightforward exercise. That is, the appropriate trigger is if WaterNSW is formally requested by Government to undertake a project that impacts on the costs of providing bulk water services in Greater Sydney through a direction or formal communication from the relevant Minister.

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[67] IPART, *Sydney Water prices 2025-2030 Draft Report - May 2025.* Page 75.

[68] WaterNSW 30 September 2024 bulk water pricing proposal. Page 95

[69] WaterNSW 30 September 2024 bulk water pricing proposal. Attachment 27, page 8.

WaterNSW also proposes 'general' several unforeseen pass-through events, the costs of which cannot be practically identified at the time of a determination, but the cost impacts are material. IPART has noted that our approach aligns with the cost-pass-through mechanisms in other regulatory regimes, for instance the National Energy Regulatory regime for electricity and gas networks.

While it is possible is some instances to identify the trigger events, the more challenging element of IPART's draft decision is the explicit requirement to know with some certainty what the future costs are likely to be of future changes.

In our view, current approach is impractical for the vast majority of events that might arise during the regulatory period (e.g. future regulatory change events, service standard change events and natural disaster events) and is limited to those events with both trigger and cost certainty (i.e. Shoalhaven Transfer pumping costs). While we acknowledge IPART's acceptance of these potential cost changes, we consider that events with trigger and cost certainty are extremely limited and severely limits the effectiveness of IPART's risk management through its pass-through framework.

While a "reopener" is potentially available, it assumes that the water utility should face all future cost uncertainty within a regulatory period – upward or downward – because it provides a "weakening of WaterNSW's incentives to manage these risks efficiently" and "would likely result in an inefficient transfer of risk to its customers".

We maintain that effective risk management is an important element of a well-functioning regulatory framework, and we welcome IPART's consideration of this in its recent 3Cs framework development. We believe, however, that IPART's framework does not go far enough to effectively manage risk.

Not knowing the costs of a future event on an *ex ante* basis should not disqualify it for a cost pass through; rather, it should recognise that a process is needed to assess the efficient costs that could conducted by IPART in a targeted and streamlined approach within the regulatory period. Not including an intra-period opportunity to obtain funding for important government initiatives builds in a disincentive to invest - which is not in customers' long-term interests - and delays the benefit of cost reductions to customers by several years.

We highlight that an intra-period review is a core element of the Australian Energy Regulator's (AER) approach to cost pass-throughs for energy networks and can be undertaken in a streamlined and administratively targeted manner over a few months. For example, the AER has approved **several positive and negative** pass-throughs including:

- TransGrid – AER approved a positive pass-through for the costs of the 2019-20 bushfire season
- AusNet Services – AER approved positive pass through costs relating to the June 2021 storms, the September 2024 storm
- SA Power Networks, Murraylink, ElectraNet- AER approved positive pass through costs relating to 2022-23 River Murray flooding and associated events
- Essential Energy – AER approved a positive pass through in 2022 to meet critical infrastructure licence conditions to meet new physical and cybersecurity requirements
- ElectraNet, Murraylink, Powerlink AusNet – the AER approved several negative pass throughs to reflect a lower cost base to be passed onto customers within a regulatory period rather than waiting until the subsequent determination.

WaterNSW considers that a more expansive role of cost pass-throughs that recognises cost uncertainty should form part of IPART's regulatory framework to support efficient investment. Our proposed framework is symmetrical, includes a materiality threshold and includes a requirement to lodge a 'negative change event' to ensure customers would benefit from a cost reduction during the regulatory period rather than waiting until the subsequent review.

We look forward to further discussion regarding the merits of this important risk management feature in future framework reviews from a 'first principles' perspective to ensure the regulatory framework is adaptive to changing circumstances, provides a fair sharing of risk between customers and water utilities and encourages efficient investment that supports the long-term interests of customers.

1.7.3. CPI cost pass through in relation to extended determination

Under the Draft Determination, IPART has stated that: *The maximum prices under this determination prevailing at 30 June 2028 continue to apply beyond 30 June 2028 until this determination is revoked or replaced.*

WaterNSW submits that it would be prudent to allow CPI cost increases if the determination continues to apply beyond 30 June 2028.

We note that IPART recently introduced a CPI pass-through provision under the 2025 WaterNSW Rural Valley Determination, where IPART stated that:

> *The maximum prices for all other services under this determination after 30 June 2026 are the maximum prices prevailing at 30 June 2026 multiplied by CPIx as applicable to the relevant financial year, and continue to apply until this determination is revoked or replaced*[70]

We request that IPART include a similar provision in the Greater Sydney determination to ensure that the maximum prices applicable after 30 June 2028 (due to an extension of the determination) will be equal to the maximum prices prevailing at 30 June 2028 indexed by CPI as applicable to the relevant financial year and continue to apply until the Greater Sydney Determination is revoked or replaced under a subsequent price review process.

1.8. Sydney Desalination Plant considerations

1.8.1. SDP volumes

In its draft determination, IPART has set water usage charges for both drought and non-drought conditions.

As shown in the screenshot below, IPART has deducted approximately 37 gigalitres from the forecast bulk water sales from WaterNSW to Sydney Water. This adjustment appears to be based on a five-year average of actual SDP water sales from 2021 to 2025.

[70] Clause 2 (4); https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Final-Determination-Maximum-prices-for-Water-NSWs-Rural-Bulk-Water-Services-from-1-July-2025-June-2025.PDF

Table 21 – IPART adjustment to volumes based on assumed SDP usage (ML)

Year	SDP (ML)	Capacity
2020-21	19,628 ML	22%
2021-22	22,399 ML	25%
2022-23	67,997 ML	75%
2023-24	35,825 ML	39%
2024-25	40,580 ML	44%
Average	**37,286 ML**	**41%**

Source: IPART Greater Sydney Draft Determination

We note that the period from 2022 to 2025 was a non-drought period. We request that IPART confirms that it has included a realistic forecast of SDP usage during drought conditions. Historically, during droughts, SDP has supplied an average of 90 gigalitres (GL) per annum, a level of usage expected to continue in future drought scenarios, as SDP continues to operate as a drought insurance supply measure.

WaterNSW therefore requests that IPART confirm that it has netted off approximately 90 GL per annum from WaterNSW's bulk water sales when setting usage charges under drought conditions as a minimum, with an additional contingent charge that is triggered if SDP is expanded to operate under the 182 GL per annum maximum capacity under the SDP network licence (e.g. with a usage assumption of two times the current usage forecast of 37 GL per annum under the non-drought period and two times the nameplate capacity of 91GL under the drought period).

1.8.2. Revenue Risk to WaterNSW as a result of SDP operation

WaterNSW is concerned that IPART's proposed approach of preferencing water supply from the Sydney Desalination Plant, particularly in the absence of transparent economic dispatch principles is inconsistent with the intent of the IPART Act and broader competition policy objectives. IPART's approach is asymmetric in that it ensures SDP is not financially disadvantaged for volume variances, but does not provide the same consideration to make WaterNSW financially 'whole'.

Under the IPART Act, IPART is required to promote efficiency, protect consumers from monopoly pricing, and ensure that pricing decisions are made transparently and in the long-term interests of customers. Allowing higher-cost water sources such as SDP, whose water is approximately four times more expensive per megalitre than WaterNSW's to be given preference without clear economic justification risks undermining these objectives.

Under IPART's draft decision, SDP is effectively given preference by introducing revenue risk into WaterNSW's determination without applying a corresponding volume based risk to SDP (e.g. in the event that SDP sales are displaced by WaterNSW).[71] IPART's decision may lead to inefficient pricing signals, and higher average customer bills.

Furthermore, IPART has argued that exposing WaterNSW to competition from SDP through the introduction of revenue & volumes based risk will incentivise improved service delivery and engagement. However,

[71] SDP pricing is structured so that SDP is financially indifferent as to whether or not it supplies water. Under the IPART proposal, this gives SDP a significant advantage. An SDP volume-based adjustment under the WaterNSW determination will ensure a level playing field between WaterNSW and SDP simply because of the SDP pricing determination (and the principle of financial indifference applied to SDP)

imposing additional revenue risk through mechanisms that are not cost-reflective may divert resources away from mandatory compliance obligations, such as catchment management initiatives. SDP is not subject to such obligations, and such mechanisms by IPART to 'artificially' introduce competition can result in unintended consequences if WaterNSW and SDP do not operate on a level playing field.[72]

WaterNSW urges IPART to implement the SDP volume-based adjustment mechanism, whereby WaterNSW's usage charge is modified based on actual SDP water sales during both drought and non-drought scenarios. This approach ensures that WaterNSW is not financially penalised for fulfilling its legislative and regulatory obligations, particularly when lower-cost bulk water is displaced by higher cost desalinated water and that customers receive drinking water at the lowest possible cost. Maintaining this adjustment mechanism is essential to preserving pricing neutrality and underfunding of WaterNSW's regulated services.

We note that WaterNSW is subject to various legislative and regulatory obligations (e.g. IPART operating licence whilst the SDP is not), hence WaterNSW would like to avoid a situation where it is unfunded to meet its statutory and licence obligations due to additional water sales by SDP that are approximately 4 times the cost of WaterNSW bulk water supply [73] End users have not been consulted on this proposed change (for example, the allocation of greater risk / volumes losses to WaterNSW and its shareholder), and it represents a significant departure from established regulatory practice. We consider that effectively reallocating financial risk from SDP to WaterNSW without a clear economic or legislative basis should be considered a matter of broader policy and legislative reform, rather than a pricing determination issue.

We also urge IPART to ensure that any allocation of risk involving SDP operations are grounded in transparent, economically efficiency principles and supported by a clear legislative mandate. In the absence of such legislative agenda and reform, introducing 'artificial' competition and revenue risk mechanisms will distort market signals, and ultimately increase costs for customers.

1.9. Other Issues

1.9.1. Permitting Unregulated Pricing Agreements for Non-Standard Customers

Under the IPART 2020 Greater Sydney Determination, pricing is regulated for defined customer categories: Large Customers, the Council Customers and Small Customers. However, WaterNSW notes that emerging customer types such as data centres do not fit neatly into these categories.

WaterNSW requests that IPART considers a flexible framework that would allow WaterNSW to enter into unregulated pricing agreements with non-standard customers (e.g. data centre providers) who fall outside the scope of the Determination's defined customer classes or arguably overlap with the definition of Large / Small Customer but are not intended to be captured by this definition (e.g. due to their non-standard customer use and potential requirement for new connections and or related infrastructure to be

[72] A level playing field does not exist for SDP and WaterNSW. For example, WaterNSW is subject to IPART operating licence requirements and catchment management and other public interest requirements (fire management for example in the catchment and operational areas, yield review and water supply studies to the Minister, among other requirements) that do not apply to SDP. Furthermore, SDP pricing is structured so that SDP is financially indifferent as to whether or not it supplies water. The effect of the IPART proposal is to allocate greater risk to WaterNSW and our shareholder for the benefit of SDP shareholders.

[73] This is a 2023-24 estimate based on comparing the 2023-24 revenue of the Sydney Desalination Plant to that of the WaterNSW Greater Sydney 2020 Determination plus an estimate of the cost of filtration under the Sydney Water 2020 Determination (i.e. the operational expenditure for water filtration services (under the outsourced Build Own Operate Model (BBO)) for Sydney Water; plus an estimate of the capital allowance for financial lease payments for BOO service).

established[74]). These agreements would be negotiated on a commercial basis, reflecting the unique service requirements and characteristics of these customers and the determination would not apply to such agreements.

We note that the proposed arrangement for flexible pricing agreements has precedent in other IPART determinations such as the Wentworth to Broken Hill Pipeline Determination for WaterNSW[75], and the carve out for Water Quality Incentive Payments under the Greater Sydney Determination.

[74] Which can include further consideration of matters related to design / water quality issues / protocols to cater for non-standard use

[75] See Clause 1.2 https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Final-Determination-Maximum-prices-for-water-transportation-services-supplied-by-Water-NSW-for-the-Murray-River-to-Broken-Hill-Pipeline-November-2022.PDF