



2025 Sydney Water and WaterNSW  
(Greater Sydney) price review

## Public Hearing Transcript

November 2024

Water >>

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## Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders both past and present.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

## Tribunal Members

The Tribunal members for this review are:

Carmel Donnelly PSM, Chair  
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## The Independent Pricing and Regulatory Tribunal

IPART's independence is underpinned by an Act of Parliament. Further information on IPART can be obtained from [IPART's website](#)

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# 1 Welcome

**Andrew Nicholls (IPART):** Good morning, everyone. Let's make a start. Welcome to today's public hearing of IPART's review of Sydney Water and WaterNSW's proposed prices to apply from the 1st of July 2025 for the greater Sydney region. It's great to have so many of you with us today. My name is Andrew Nicholls and I'm the CEO at the Independent Pricing and Regulatory Tribunal and I'll be managing the public hearing today.

I'll just start with some housekeeping before we get underway. If I could encourage you to keep your microphones muted, if possible, when you're not speaking, just to avoid feedback and background noise, and we encourage you, to keep your cameras on if your Internet connection is up to it. If you're comfortable doing so, it just helps us connect when we're meeting online. Please also make sure your name is showing and instructions for doing this are provided in the chat box and if you are representing an organisation, if you could drop in the name of the organisation as well, that would be great. It helps me enormously when we come to Q&A. Just be able to know the names of the people so that I can call you out and to help with accessibility, we have turned on zoom captions. So, there is a message in the chat about how to turn these on.

Now, just so you're aware to ensure that we have an accurate record of the discussion today the hearing is being recorded. This recording will be available on the IPART YouTube channel until the end of the review process and a transcript will also be published on our website along with the presentation slides and the agenda for today. Now, that's to allow stakeholders who can't join us today to find out about the important issues that are discussed today at the hearing. Now, being a public hearing, the media and others who are present here today are free to publish and refer to what is said during this hearing.

Now, also briefly, just go through how we plan to run discussions today. We want to encourage a meaningful and productive discussion and we're interested in hearing from everyone participating in this hearing and we've had more than 150 nominations for the hearing. So, we have quite a few people who may want to speak today and we will aim to get to as many of you as possible and have several opportunities to be able to speak during our discussion times today. Now, it is our responsibility to ensure a safe and respectful environment, where everybody feels comfortable to speak and feels safe to share their views.

Now, we invite all participants to share their views freely but we also ask that you're respectful of each other, both in terms of time that you take and the length that you might make in your comments but also in the way you convey them and the respectfulness of the different ranges of views that may be presented today. Please allow others to have their say and we kindly ask that you remain patient and respectful and not interrupt a speaker. But put your hand up or drop a comment in the chat and I'll come to you if you want to make a response to a particular point that's made today.

Now, as I say, I will do our best to get to every one of you. If you're not able to get your question in in time, we will take a note of all the questions and comments that have been raised and you can put your comments in the chat box at any time or your questions at any time. And we will pick those up and they will all be included and counted towards the input that we are taking into account as part of this review process.

So, I really do encourage you to use the chat box if you can. Some people may not feel comfortable speaking and if you want to use the chat box as a way of conveying your ideas, that's great too. Sometimes I might ask you to elaborate but if you don't feel comfortable, that's perfectly fine, so please use the chat box to put forward your questions or comments as well. But you can also, once we get to the question-and-answer period, put your hand up using the zoom function.

Now, we've invited a range of stakeholders today, including customers, to this hearing and we're keen to hear from all stakeholders on Sydney Water's and WaterNSW's pricing proposal for the greater Sydney region, so that's the focus for today. Now, we understand that some customers may face specific issues, which might relate to their own services or it might relate to their own personal bill and we may not be able to address all of those things at this hearing. If you have some specific issues or queries, I'd suggest that you raise these directly with Sydney Water in the first instance.

Now, with that out of the way, turning to the agenda for today, we'll begin with a brief overview of our review process. We will then move to the first session of the day which will start with a presentation from Sydney Water on its pricing proposal and then we'll open the floor to some initial comments or questions. We'll then have a presentation from the IPART Secretariat on the certain aspects of Sydney Water's proposal and the sort of things, that we're looking at that will be followed by another opportunity for you for you to raise questions or comments. Now, it is a long session today and we've got an opportunity to hear also from WaterNSW on their part of the proposal. But we're going to break for lunch first, first just to give everybody a bit of a stretch, opportunity to grab something to eat, get the blood sugar levels up. We'll then begin our second session with WaterNSW and their proposal for the greater Sydney component of their submission. Then we'll finish up with the IPART secretariat providing a presentation plus Q&A and closing remarks. I'll now ask our Tribunal Chair, Carmel Donnelly, to start the hearing.

**Carmel Donnelly (IPART):** Thank you Andrew, and good morning everybody. As Andrew said, my name's Carmel Donnelly. I'm the chair of the Independent Pricing and Regulatory Tribunal known as IPART for short and joining me today are fellow Tribunal members, Jonathan Coppel, Sharon Henrick and Darryl Biggar. We're also joined today by members of the IPART Secretariat including Fiona Towers, Scott Chapman, Eva McBride, Pramuchandratne and others from the water pricing team.

I'd like to start by acknowledging the traditional custodians of the lands from which we are all joining this discussion today and I'm joining you from Yuin Country. I pay my respects to Elders, past and present, and extend that respect to Aboriginal people and Torres Strait Islander people joining us today. I'd also like to recognise the ongoing connection of Aboriginal people to the land and waters in the Greater Sydney area that we are discussing today.

Thank you very much for joining us for this important public hearing for this very important review. We very much welcome and value input from you and this is an important part as we commence this review of the proposed prices for the greater Sydney area from Sydney Water and from WaterNSW. We appreciate you giving up your time to participate today.

Thank you all for attending. We're particularly keen to ensure that people who may not have the opportunity to put in written submissions get an opportunity to just talk with us, ask questions, and put their views so, it is very important. It's also very important as we commence this review, so we will be working very hard at analysis, assessment, and looking at the details of these proposals. But what we hear today, everything we hear today will be considered and that will also help us to look in more detail in areas where there are issues and concerns raised by stakeholders. So, this is very much an opportunity today for you to have your say and to help inform our assessment process and that's why we have people from IPART as well as the tribunal here listening so that we are able to hear from you and that will inform our process.

With these reviews I might just say a few opening remarks about the way that we will approach this review. We're setting the maximum prices that Sydney Water can charge for water, wastewater, stormwater and other water related services, and also that WaterNSW can charge for its bulk water services for the greater Sydney area. As Andrew said, we're reviewing what the maximum prices should be that would come in from the first of July next year, for a 5 year period. We last looked at these prices in 2020, we recognise that access to safe reliable drinking water and wastewater services is critical. These are services that people can't do without. It's also critical to communities, to the environment and to the economy.

So, our role is to independently and thoroughly assess and review and set these maximum prices, and to ensure that they reflect a fair and efficient cost of providing the services. In undertaking these reviews, we're required to consider a number of factors under legislation, and just to put it into summary, questioning whether the proposed costs are no more than an efficient business would require to deliver the services that are required. In particular, we consider whether customers are being protected from any abuse of monopoly power. We do consider the impact of prices on the quality, reliability, and safety standards, so, we know that people rely on having good quality services. We look at whether the prices promote environmentally sustainable development. We look at the impact on the economy so such as what the impact on inflation might be. We also look at the social impacts of prices on the people and on the communities, including affordability and cost of living impacts.

In addition, the NSW Government also requires IPART to consider specific factors for the Sydney Water Price Review; particularly the cost-of-living impacts, the effectiveness of existing rebates to manage those impacts on customers, the opportunities to adjust project timelines to minimise price impacts and the deliverability of the proposed plans, particularly the capital plans. Ultimately, we will determine whether or not these proposals represent value for money, and are in the interests of customers, and deliver the outcomes that customers need and want over the short-term, medium term and long term.

So, to assist us, we have a regulatory framework. That considers a broad range of aspects of the proposal, including a number of aspects about whether or not the services and expenditures are delivering customer outcomes and value for customers. Looking very closely at the costs and the efficiency and the equity of cost recovery, the credibility of the proposal and the credibility of the business in being able to deliver what it says it will deliver.

Now, we have released an issues paper on our website along with the proposals that we're discussing today from Sydney Water and WaterNSW and that issues paper includes a summary of our approach to this review. So hopefully, you'll find that useful if you're preparing a submission to have a look at that issues paper because it really puts it in a nutshell. Now, as I said, this is an opportunity for you to have your say so I'll stop about now and I look forward to hearing your views and we will consider everything that's been said today. So, thank you again very much for joining us and I'll hand back to Andrew.

## 2 Session 1: Sydney Water

### 2.1 Sydney Water's presentation

**Andrew Nicholls (IPART):** Thank you Carmel, and thank you for those introductory comments. We'll now move to our first session starting with a presentation by Sydney Water on its pricing proposal. After that we'll open the floor for discussion and then as I mentioned, IPART will make a presentation and we'll then have some further discussion. I'll now invite Mr. Roch Cheroux, the managing director of Sydney Water to present on the pricing proposal. Thank you and welcome to Roch.

**Roch Cheroux (Sydney Water):** Thank you Andrew, and good morning everyone. So, we have put together a few slides to go through the proposal. This is a very important discussion this morning and we welcome IPART for inviting us and inviting our customers to have this discussion.

I would like to start by acknowledging the country. So, we are here in in Parramatta on Burramattagal land and I want to pay my respects to elders, past and present, to also thank them for the good care of the land and water.

So, what we're going to discuss today, we're going to go through our proposal through the lens of customers because this is how it has been built and look at the benefits of the proposal. But also understands the impact of this proposal on our customers and of course, we welcome any questions at the end of the at the end of the presentation.

So just to summarise, I'm sure that all of you know exactly what the past proposal is. I just wanted to put that back into the context. So, this is something that we could call our business plan for the next 5 years. But, very importantly, this price proposal for the next 5 years is actually part of a long-term plan, so that we not only discuss about what we're going to do in the next 5 years. But also how it fits with the long-term water future of the greater Sydney area and that's a really important aspects of our proposal because we know that the assets that we manage for our customers are long term assets and we know that they have an impact for the long term on our customers.

So being clear about what's going to happen after the next period is important and that's how we have looked at this this proposal. You will see that it explained how we've built the proposal but it also explains why we need to do what we need to do for the customers in the next 5 years.

So just a quick summary about Sydney Water today, you've got here a very high-level map on where we operate. So, you can see it goes from here, the Blue Mountains in the west to Wollongong and Gerringong in the south. So, it's a large area, it's also an area that is very populated. So, it's about 5.4 million people, which is a significant part of Australia's population and actually, this area also covers about 25% of the GDP of the country. So, we are absolutely clear that what we're doing has a significant impact on a large population, but also a large part of the Australian economy.



We have a large asset base in Sydney. We always talk about the length of pipe that we've got in Sydney. There is actually enough pipe to start from Sydney, go around the world by putting all the pipes together and come back to Sydney, so it's not far from 50,000 kilometres of pipe that we've got in Sydney and then the number of treatment facilities, pumping stations, etc. We operate in a very regulated environment. NSW Health is our public health regulator, EPA is our environmental regulator and IPART is our economic regulator and then we also have a number of Acts that we have to comply with.

So, I want to start with this slide, this slide is really the basis of our proposal. So, we started to work on this proposal a long time ago and we've worked during about 2 years with our customers to really understand what our customers were expecting from us. This discussion has been very deep, we have engaged large number of customers, so it's about 13,000 customers that have been engaged with and the discussions have been have been very, very deep in what we're doing and how we're doing it and it was for us, absolutely critical to understand what our customers were expecting from us so that our proposal for the next 5 years and for the future was reflecting exactly what our customers are expecting of us. Which was also aligned to the affordability that our customers told us they could afford.

This process lasted about 2 years. Interestingly, at the start of the of this engagement process with our customers, we had only 4 phases. We actually added stage 5 and stage 6 during the proposal and the reason why we did it simply because during the process, we understood that actually, we needed to go deeper in a number of different areas with our customers to really have the full understanding of their expectations and that's what we did.

So interestingly, what came out of the proposal was a large number of information. I'll start with the 15 priorities that were given by our customers. So, we've sort of grouped the priorities into 3 aspects. One is about customer experience and customer experience is all about the services that we provide to our customers; and it can be the quality of water, it can be also the availability of our service, it can be the contact that they have with our call centres, the way we interact with our customers when we repair the part in the street. All the experience that is forming the experience of our customers and obviously front and centre is the affordability and how much our customers are prepared to pay for our service.

The second group of priority is around water quality and reliability and here the customers have been very clear about the fact that they wanted us to ensure that not only today but also in the future, Sydney will not be without water. So, water security is something that is front of mind for our customers and they told us that they wanted to think about the water security now and in the future. Water quality is a sort of a given and for our customers it needs to exist, it's something that is definitely non-negotiable. But interestingly, in this discussion with our customers there was also a lot of discussion about the availability of service.

So, for example, water restriction during the next drought, or for example, how often they would accept that a part would break in their street, and how long it would take us to repair.

The third aspect or the third group of priorities that our customers gave us was about environmental protection. In the environmental protection objectives that were given by our customers. You find a number of things so you've got obviously compliance with environmental regulations and the fact that they wanted our treatment facilities to treat water to a standard that was protecting the environment. But they also told us that it was important that everything that we were doing was protecting the environment and ensuring that Sydney, or the greater Sydney area was a liveable city and that includes our role in making sure that we've got some swimming sites in the rivers, in protecting beaches, in making sure that we've got enough water for parks and gardens. So, that we can protect the city from heat islands and make the city just a great place to live.

So, we've included all this in in our proposal and you see on this slide a number of insights but the discussion was not only about the priorities. It was very much about understanding the balance that our customers were prepared to make between the levels of service that we're expecting, the level of risks that they were prepared to take. So levels of service, think about, 'I want water 24 hours every day at my home' and the risk would be how often I'm prepared to have a break in the street and have a water interruption at my house; and then the third part of this very fine balance is the cost and the affordability is centre here and so the discussion was for our customers was on this example. 'I want to have water 24/7 at my place, I don't want water to be interrupted more than this number of times every year and for this I'm prepared to pay this much,' and we had many interactions in these discussions with our customers; where usually it started with, 'we don't want any water interruptions' and our discussion was, 'Yeah, that's possible, but then that would cost this much, would that be okay for you?' And our customers say, 'Oh, no, no, that's too expensive.' So, what can we do so? And we have the discussion about the next level of risk down and the cost impact that it would have and we've done that for every aspect of the service that we provide to our customers. So, that in this proposal we have something that not only fits with the expectations of our customers in terms of levels of service but also in terms of risk and in terms of what our customers have told us they could afford.

So the this discussion with our customers, had also a number of things in the background that were playing a role. One of them was the greater Sydney water strategy, which is a sort of a framework documents, it's very much a state of where we are in the greater Sydney area in terms of water; and interestingly, when you read these documents, you would see that actually the water that we collect from catchment is actually slightly lower, slightly less than what we consume on average in Sydney and that tells us that okay, we need in the future, we need to invest into more water production capacity. Because actually, we are using more water than what we've got available from the dams. It also takes into account a very important aspect of the life in NSW and Australia, which is the housing crisis that we currently have and the fact that there's a need to build more houses in Sydney in in the next few years. So, if you take these 2 background documents, and there were other documents that were all the regulatory documents that of course, we have to take into account. Then, what we built is this long term, capital and operational plan and in this plan we have put together a plan of investment and operation of Sydney Water in the future to 2050. So, this is a long-term plan and that takes into account all the aspects, the context that we are operating in and the customer expectations and from this we've been able to build the plan that is basically the basis of our submission to IPART.

So, I've mentioned previously the fact that we have a regulatory framework that is something that we always consider and this regulatory framework is changing. So, we have seen in the past few year's changes in the environmental framework. So, the environmental protection licenses that we've got for some of our facilities have evolved and they are evolving to respond to a number of events like climate change. But also, expectations from our customers and communities and also new science that is available to understand the impact that the not only Sydney Water but actually every member of the public have on the environment.

On the water side, that's exactly the same, regulation is changing. We had a recent update of the Australian drinking water guidelines and that's something that we know is going to continue to evolve. As the science is continuing to evolve, so, we have also to take that into account. Because when there is a change in regulation, it means that we have to change our treatment facilities or wastewater treatment facilities or water treatment facilities. So, taking that into account is also absolutely critical in this proposal.

In all this, there's also in the background a few things that have a massive impact on what we're doing every day. So, I mentioned the growing city and the fact that there is a government ambition to build more homes in NSW and in the greater Sydney areas in the next few years.

To put things in perspective, last year we had about 80,000 additional customers. So, when you think about the number of customers we have, adding an additional 80,000 to 100,000 every year is having an impact on our asset that is significant; and this impact is such that actually our assets, most of our assets are currently at capacity. If you add to this climate change which has a very significant impact on not only on sea water but on the entire water industry. It has an impact in terms of droughts and flooding. It has an impact on coastal erosion, it also has an impact on how our people are using water. So, this is something that we have to take into account because we can see and we have been seeing the impact in the last few years and it's going to increase in the future.

I've mentioned the changing expectations of our customers, that's something that you know, it's a given, it's a no brainer for us that we have to listen to our customers and deliver what they want, not what we want. There is a number of unpredictable events that are also in the background and I'll just take a few examples. But in the last 5 years, in the current regulatory period we have had droughts, we have had flooding, several floodings, we have had Covid and in the background; there's also all the supply chain disruption that we've seen during covid but also simply ways some international attention with overseas producers that are bringing goods to Australia.

The loss in the tunnel is what we've been able to do and what we're going to be able to do with emerging technology. So, we've been using technology in the current regulatory period and we continue to use technology to help us to do things in a different ways and more efficient ways and this is something that is also part of this proposal. Because that's going to help us to evolve the way we do business in a more efficient and effective way.

So, just few words about the system and I'm not going to go into the detail but it's important to understand how the system operates today in Sydney it's quite simple. You can imagine that we're taking water from the dams Blue Mountains and in the south. It's coming by gravity to our water treatment plants, where we treat the water to drinking water standards. We provide the water to our customers, they use it and then we collect the wastewater from our customers and this wastewater, most of this wastewater is actually transported to the coast where we've got 3 large treatment facilities at North Head, Bondi and Malabar.

So, this has been the system but, as I explained today, this system that has worked well in the past is at capacity. So, the water that we collect from the dam on average is actually lower than the water that we consume in Sydney on average. So, in terms of production capacity or water availability we are at a stage where we need to find new sources of water. In terms of wastewater, the pipes that are carrying wastewater from the west to the east are almost full, so we have a number of different choices on what we need to do but we need to do something.

So, part of the engagement with our customers was to have this discussion about the different options that are in front of us, on which one is the most efficient, and which one is acceptable to our customers, which one is the one that is preferred by our customers. Part of this plan is actually to change the system from this flow from the West to the east and actually decentralize this system. So instead of creating more sewer highways from the west to the east, building large tunnels and upgrading the coastal treatment facilities, the idea is actually to treat the west water where it is produced, and then to put it back into the environment instead of discharging it back to the ocean and putting it back into the environments give us the possibility to do a number of things with this recycled water.

It can be used as a source of water for irrigation, for industrial purpose for all sorts of things, but potentially also in the future it could be also put back into the dams or into a storage somewhere, when it where it can be stored and used in case, we don't have enough water in our dams. So that's shifting the way we've done water in Sydney for the last 136 years to something that is slightly different, and that will make water security in the future something certain, but also something affordable.

So, this slide is about what I was saying before and the discussion that we had with our customers about the level of service, the level of performance that our customers were expecting and the level of risk that we were prepared to take. And that's really important that our customers are there to tell us "Well, actually in the next droughts I don't really want to go into a level four restriction. I want to be a maximum of this number of days in a level 2, or level restriction." That's really a customer decision to tell us this is what's acceptable, and then for us to work out? What are the different options to get to that sort of situation. and then discuss the cost of these different options with our customers, and then finally agree on what is the acceptable cost to our customers, considering the level of service, performance and risk that they are prepared. And this is exactly how this submission has been used.

So, what we've got in the submission is two things. The next five years program in terms of capital investments, what we call the Capex 'capital expenditure'. We've got 16.6 billion of expenditure and you can see that there's about 40-60% between water and wastewater. But there's also, the level of operating expenditure what we call Opex, which is the money that we need to run the service, run all the service we operate for our customers every day. So, it goes from the treatment facilities to operating the network to responding to calls from our customers, etcetera. This is very much how much we need to run the service.

So, what's this level of investments is going to deliver? And what you've got on the right-hand side is the 10 years investment so that you've seen the five years investment is 16.6 billion and the ten years investment is 32 billion. So that's simply again to highlight that everything that is in this year's proposal is actually part of a long-term proposal.

So, there's a lot of things that are going to be delivered for our customers in the next five and ten years. I've explained the change of configuration of the network in see both water and wastewater, so that includes expansion of the desalination plant, and starting to bring purified recycled water, which means, instead of discharging the treated water back to the ocean it's actually keeping it in the greater Sydney area so that we can use it if we want to use it.

There's also a part which is about integrating storm water management, and we know that when it rains a lot, and sometimes there's a lot of water in a very limited amount of time. Actually, there's a possibility to integrate this water into the environment and to use it in a in a in a different way. So, we've got this program included in our in our plan, and that's mainly in in Western Sydney, in the new area being developed.

And there's also in this program, an increased level of maintenance for our assets, and that response to again the level of risk and the level of service that our customers expect from us where they've told us. Well, in some cases, actually, we would like you to respond to a leak in our streets a bit quicker, or in that situation we're not really comfortable that a sure part is going to break and put wastewater into the river. And that's this level of maintenance that will give us the possibility to reduce the impact that we've got on the water services and the wastewater services.

A large part of this investment is due to growth. And we've seen that the housing program is significant. The government ambition is in the next 10 years to build an additional almost 700,00 new dwellings. So this is almost 70,000 new dwellings every year, which is significant when you consider that currently we are probably between 30,000 and 40,000 new dwellings every year.

So, growth is absolutely a big part of what we do in the capital program. It's it is about 60% of our capital program. So, when you think about the 32 billion of investment over the next ten years, 60% of it is dedicated to growth. So that's building new parts, new pumping station, new treatment facilities for all the new suburbs that are being developed in the West, northwest, and southwest and in the South, but also to upgrade the existing assets that we've got in existing Sydney, so that the transport-oriented development can be also built and in feel can happen in Sydney as well.

So, we've discussed about the expectations of our customers. What you can see on this slide is few of the things that this proposal is going to are going to deliver to our customers in the next five years. There's a lot on the customer experience especially in the way we interact with our customers. And that includes also our developer customers base always new technology that we can put in place, and we keen to be up to date in terms of the way we interface with our customers.

In terms of water quality and reliability there's a number of upgrades on of our water filtration plans to comply with new regulation, but also to make water production more secure and interconnect a number of a number of our systems, so that we've got more security in case one of our system is down on the Environmental Protection side. There is also a lot of investment to have our facilities able to deliver on the on the new regulatory requirements that we've got, but also prevents pollution and make sure that Sydney is a great place to live and avoid the pollution that we've got from time to time in our rivers or on our beaches.

You can see at the bottom of the slides the expenditure for these different aspects of the outcome of the plan. And you can see that the forecast expenditure for customer experiences is relatively small. And that's mainly because we're talking here about systems. But the investment plan for water quality and environmental protection is significant. Because here we're talking about assets that are that need to be built and that are expensive to build

So, we need to talk about the impact of this investment program on our customers. So, the current situation in Sydney. Our customers, on average, are paying about \$1200 per year for water and waste water services. We are fortunate to be the lowest capital city in the country, and one of the lowest bills in the country, and this is something that we want to keep low, because this is something that our customers have said is front of mind for them. So, the impact of this investment program for the next five years is for again for an average customer, and you know that there's no average customers, but to put things in perspective, we're talking about the \$4.35 additional dollars per week for an average customer. That's for the first year, which is the year where we've got the highest increase. And then the following five years, we've got an additional \$2 per week. When you bring that back to percentages, it's an 18% increase in the first year and a 6.8% increase in the following four years. So that is the impact on our customers.

We know that for some of our customers it is going to be difficult. We've discussed this increase on average with our customers. We know that this is about the level of affordability that our customers have told us they were that was acceptable. Never happy to have an increase of this sort, but our customers have told us that they understand why we need to have this level of investment. If we want to keep water services and see secure for the future. Know that for some of our customers. This additional increase of \$4 extra per week would be difficult. And we have included in our submission a number of measures to make sure that this can be affordable to all our customers.

So, we have allocated in our program about \$1 billion for the customers that will not be able to afford the \$4 dollars per week increase. And that's really important that we continue to support our customers. This is something that we've always done, and we want to continue to do so that everyone has access to a very essential service. So, the support to customers for a number of different support mechanisms is definitely a big part of our proposal.

So, we've committed also to our customers that we would report on our progress and our performance in a completely transparent way. So, you've got here a number of indicators that have been discussed and selected by our customers that will demonstrate the our progress and our performance to our customers in what they have said our priorities. This, this is going to be public on our website, and we're going to report on this very, very regularly. Most of these measures are measures that we already use as performance management within the business, and we're going to make that very public and very transparent to our customers so that they can see the level of performance. What we're doing today, the what they've asked us to deliver.

I want you to finish on this slide, which is one slide that summarises our proposal and the story that is behind our proposal. It starts with the context with the expectations from our customers, and how we've engaged with our customers to really understand their expectations, what they wanted from us, and how we've built this plan with our customers to reach the right balance in terms of risk levels of service or performance and level of cost for the next five years. I wanted to stop here, Andrew, but happy to move to questions.



## 2.2 Comments and questions

**Andrew Nicholls (IPART):** Great. Thank you very much Roch for taking us through that presentation. Before we come to the IPART presentation we will open the floor for discussion, and we invite you to share your views, or ask questions, or to make comments. Now you can do that in one of two ways. You can drop your comments or questions into the chat and I'll aim to come to as many of those as I can in the time available, or you can pop your hand up. I just will also let you know if you, if you are dialling in on a phone, some people might be, you use \*6 to raise or lower your hand and \*9 to mute or unmute in zoom. So, if you do have questions and you're dialling in on a phone \*9 will get the hand raise function happening.

Now, when you do make a comment or a question. If you could say your name and organisation. If you are representing an organisation that would be that would be great. And I know that Water Services Association have asked to say something, but we might just go to sort of general questions first, first and then I might circle back to them in a moment. Dorothy. I notice you've put a question in here about single person, households and smaller households, concerns about the distribution of the proposal. Happy to take that as a question as written. But if you did want to speak to that happy for you to jump in as well.

**Dorothy Robinson:** No, I'm happy to take it as written, if you like.

**Andrew Nicholls (IPART):** Okay, fantastic. Thank you, Dorothy, appreciate that. So, the question which I think is directed at Sydney Water is just a series of questions there. I'm not sure if you've got them in front of you, Roch and team. But really the questions about the distribution percentiles for residential and commercial uses and why Sydney Water have taken the approach that they have in terms of the allocation across different sizes of water users. I think if I'm summarizing your question, Dorothy.

**Dorothy Robinson:** Yes, yes, essentially, it was just that. It seems to be biased towards large water uses, and they're not.

**Andrew Nicholls (IPART):** Brilliant.

**Denisha (Sydney Water):** Someone in the room from Sydney Water. I'm happy to answer Dorothy's question. Just point Dorothy to a section in the submission where we do talk about low water users of around a 100 kilolitres per year. We do talk to a couple in a small house, but it would also cover a single user in a small house. So where the annual bill for a low water user at the moment would be around \$982 per year, under our proposed submission, that will rise by about \$200 next year to about \$1,161 and then increase by about \$100 per year thereafter.

We appreciate for some customers that this increase may be impactful. And so, as Roch mentioned, that's why, with the support of NSW Government we will set aside some additional money around a billion dollars in payment assistance programs over the next five years to support those in need. If customers are worried about paying their water bill, we can provide them with help and support in several ways, extensions and payment plans, free, essential plumbing discounts for pensioners, emergency support. So if anyone you know, or if you're concerned, please encourage them to call our contact centre on 13 292 and we will work with you to find a solution that meets your situation. Dean, I'm not sure if you want to explain our pricing methodology.

**Dean Page (Sydney Water):** Thank you. Denisha, Dean Page, here from Sydney Water Corporation, and I just wanted to provide some more information in regards to Dorothy's additional queries. Dorothy is correct in our observation that the price increase will be slightly higher, or a slightly higher percentage increase than for a smaller household or a smaller occupancy than it will be for a large household or large water users, household, and that's a factor of how we've established our prices under the submission.

Our water pricing methodology aligns with the national water initiative pricing principles, and also IPART's water regulation handbook, and that requires us to set a usage or a water usage charge with reference to the long run, marginal cost of providing the water, and in this case that increase in the usage charge is less than the 18% increase in year one that is applied to our service charge. How that's arrived, although sorry, I should say the increase that's applied to our service charge, and that's because that long run marginal cost has not increased by as great a proportion as our overall cost those regulations.

Those frameworks require us to then recover the balance of our costs from the fixed charges, and in our case our wastewater charges are all fixed charges to a residence, as they're not a metered service, the large increase is really being driven by our investment program and our accommodation of the growth of Sydney and unlike supply augmentation. Those costs are fixed, and really don't vary with the amount of water that our customers use.

So that's how we've ended up with that situation of a slightly higher increase for lower water users. Dorothy does make the point in her question about it. It does seem a little bit at odds, with a desire to encourage water conservation. And certainly, we've seen, if you look across the country, that some of our peers do use an inclining block tariff, and what this means is that it's a lower cost for a first range of consumption. Then that steps up for our next range of consumption, and you might have a very high per kilolitre charge for very high-water users.

We did as part of our customer engagement, our water our voice, we did discuss with our customers or with our customer panel, whether an inclining block tariff was something that they would support and encourage us to submit as part of our proposal. But they thought for fairness and equity purposes, that maintaining a single block tariff, or a single price for water consumption, was the appropriate way to address water pricing in this submission, and that's what we've submitted. Thank you for your question, Dorothy.

**Dorothy Robinson:** Well, I'd also be interested in the median, because if you look at some of the ABS data, the median your water uses your low water use is a hundred kilolitres per year, and I reckon that must be pretty much close to the Median household. So, I mean, I think what you've done with your examples is you've skewed it very much to the high-water users, because the low water use. According to some of the stats I've looked at is less than 50 kilolitres a year, and we should really have an example of how a single person using a 137 litres per day would be really balance your consultation and make it look a bit fairer and a bit easier to understand. And that's really missing from all the documentation is just in Central Sydney they're about 40% of all households and not including them. As an example, really does distort the presentation. and maybe the marginal cost depends on the amount of water you need as well. So that would be an interesting question. It would be worth addressing that if it's possible in your further consultation if you can thank you.

**Andrew Nicholls (IPART):** Thanks, Dorothy, and I think Carmel Donnelly is just going to jump in on this point as well.



**Carmel Donnelly (IPART):** Yes, Dorothy, I want to thank you for that question, and I thought I might just add a little bit more detail about our approach. IPART is not limited to the information that's already been provided by the water businesses, such as Sydney Water, so we have certainly have the authority to obtain further information. I think you've raised a very good question, and it would be very useful for us to get further information and have a look at the impacts on a broader range of customers such as you've suggested. So, we will look into that.

**Dorothy Robinson:** Thanks.

**Andrew Nicholls (IPART):** Great thanks, Carmel, Dorothy, and Sydney Water for your responses on that question. Are there any other questions or points that anyone would like to raise particularly on what you've just heard from Sydney Water. If I've got Andrew from Cook's River Alliance.

**Andrew Thomas (Cooks River Alliance and Stormwater NSW):** Thanks, Andrew, can you hear me okay.

**Andrew Nicholls (IPART):** We can indeed. Thanks, Andrew. Look. I just like to make a brief statement. It's not a question which I'll also be submitting as a submission formally. It should only take about 2 minutes. Is that okay?

**Andrew Nicholls (IPART):** That's fine. Yes, if people have long statements, if I could encourage you to submit those to us formally in writing or in the chat box. But short statements are fine, thank you.

**Andrew Thomas (Cooks River Alliance and Stormwater NSW):** Yeah, just for the record. So, I'm Andrew Thomas. I'm from the executive office of the Cooks River Alliance. The Cooks River alliance is an alliance between four major councils of the Cooks River. You've got Bayside Inner West, Canterbury, Bankstown, and Strathfield. And also just for so everybody knows Sydney Water is part of that alliance as well. So, the alliance exists to better manage and revitalise arguably Australia's most degraded urban river, and most densely populated river catchment.

So, the reason why I'm going to make a submission is to mostly focus on the stormwater and river revitalisation components. I just might clarify why that's important to us. So, the first thing to note is that river catchment groups like the Cooks River Alliance exist organically. They're not with disabled bodies. Rather they exist thanks to decisions taken by local councillors and State government entities, to better manage our urban rivers on behalf of their communities. So, these usually exist because there's a strong community interest in the protection of our waterways. Intensive community consultation undertaken by Cooks River Alliance and other catchment groups, I think there's another one here that will be speaking next, has revealed a strong public desire to revitalise Sydney's urban rivers. And this has been particularly so post Covid. Top priorities for the Crooks River include, you know, water quality improvement, so clean water for the river, which is quite degraded. Waterway naturalization, spending time in nature and secondary contact.

So accordingly, on behalf of the Cooks River Alliance member organizations, and that's the communities we represent, we're here to support Sydney Water's pricing submission, as it relates to Sydney Water's custom priority number three: maintaining safe waterways and water recreation areas by reducing pollution and undertaking revitalization projects. And for those of you who are not aware a lot of Sydney Waters, trunk drainage which they're responsible for, a lot of it used to be natural waterways, and a lot of it has been cemented or otherwise changed.

Some was well intended back in the early mid 20<sup>th</sup> century, and maybe I think it ended in the seventies. It was well intended, but it didn't quite do the job it was meant to, and it's caused all sorts of problems with liveability, water quality and destruction of natural environments in the river and also the Bay. To achieve this, Sydney Water's pricing submission includes approximately \$600 million dollars over 10 years for stormwater and waterways to renew stormwater channels, pipes, and assets, but also urban waterway naturalization programs, maintaining stormwater natural assets and additional staff to coordinate with catchment groups like ours to make this work happen.

And about \$480 million dollars to reduce wet weather overflows that prioritise work based on environmental and public health benefits. That's really about addressing the raw series that tends to find its way into some of our rivers and our waterways when there's rain events and things like that.

So, what I'd like to say, I guess, about all that is that the what's being proposed by Sydney Water is extremely important to ensure that the community expectations are met with the way we look after our rivers, and that the environmental and also human health and wellbeing costs aren't carried forward and passed on to other generations. But it's also should be considered it's \$600 million over ten years, it may seem like a lot of money, it isn't working in the Cooks of Alliance now for several years. That sort of money we would consider just to be a bare essential to begin to revitalize our urban rivers, which have seen degradation over centuries, and quite severe, particularly where the Cooks River is concerned.

So, however, much more investment is needed to bring the river and Sydney Waters other rivers back to life, allowing for their full social, economic environmental potential to be realized. We're not suggesting here that Sydney Water should go back and look at its figures. It's not our area of expertise. They need to balance the cost-of-living issues that they that people their customers have to have to live with. But we just wanted to make it known that the money that has been put aside for the works that I've mentioned are very important if we're going to repair our urban rivers, and there'll need to be other investment. So, it shouldn't be considered as a minimum rather than anything else. I think that pretty much covers it. I'll make a submission, I've gone on long enough, so we'll make a more formal submission.

**Andrew Nicholls (IPART):** Brilliant. Thank you, Andrew, appreciate your input and look forward to submission. Okay, Alexi, I think, is our next speaker.

**Alexi Gilchrist - PRCG:** Hello! Can you hear me?

**Andrew Nicholls (IPART):** We can indeed.

**Alexi Gilchrist - PRCG:** I had to do zoom in browser, and it wasn't liking....

**Andrew Nicholls (IPART):** We live in a new world of technology. So yes.

**Alexi Gilchrist - PRCG:** I'll also be making a comment like Andrew, I represent a catchment alliance, but in my case it's the Parramatta River Catchment Group and in the interest of transparency. I'll also disclose that Sydney Water is a financial member of our group. Their remit as a water utility company, particularly in their wastewater management function is, makes them a key stakeholder in our collective and our vision to create a world class river for Sydney. For if we didn't have the Parramatta River, we wouldn't have Sydney Harbour. I'd just like to reflect on our relationship with Sydney Water and our observations of their operations, particularly as it relates to the implications of the Price Review.

So, in our role as a catchment leader, we've observed shifting, commute perceptions around waterways and increasing value of those waterways. So, it wasn't really a surprise in their recent customer survey that maintaining clean, safe waterways and water recreation areas by reducing pollution was the third highest priority following clean drink water and affordability as core business items for Sydney Water.

So, it is quite interesting to see. But through our relationship with Sydney Water, we've seen that organisation mature and evolve and continue to align their strategic and operational directions with these community expectations. But we've also observed that there's been increasing pressure from local and State agencies on Sydney Water to be more involved in catchment management. So, we welcome their continued and increasing activity in this space.

And they've certainly stepped up. They have a robust water quality monitoring program, and we welcome expansions to this program through funding increases identified as part of this submission. But we've also note that they had to develop the Riverwatch program which communicates when our public urban waterways are safe to swim in, which was necessary because the State government didn't want to step up and expand the role of the Beach Watch program to fill that function.

But Sydney Water also sits in this awkward position, where they are a significant agent for change in water management, but they're also a primary polluter where their wastewater assets fail. And this is this latter part is a product of our more colonial approach to resource management where government policy has not valued waterways as an asset, and instead treated them as dumping grounds for our waste. Take Homebush Bay, for instance, and the contamination sediments there. It's a real challenge managing waterways going forward, particularly as there is increasing pressure on our waterways to absorb our community, recreation, and social functions that are becoming harder to find and satisfy in our land management spaces.

We've also seen an increasing ownership of that role as a polluter. It's a challenge where you have to manage both sides of that coin, but they've been incredibly transparent with the condition of their assets and the works they are doing in that space. And I would like to note that through their participation in the Parramatta River Catchment Group, Sydney Water has changed the way it manages its infrastructures for the benefit of the environment. So, while still assessing and prioritising their maintenance, renewal works around the condition of their assets, they're also factoring in the impact of those failing assets on the environment. This has seen significant improvements to water quality where they have improved assets that are impacting the environment as part of that or operational renewal cycle. All while utilizing their existing expenditure for those assets and doing so in a more strategic fashion. So, they are achieving much better value for money while also being responsible environmental corporate citizens. And this is just one area where they are showing fiscal responsibility.

The fact that they've managed to achieve economies of scale that you don't see in other local or State government agencies around infrastructure management is quite reassuring, and really speaks to their responsibility in that cost management space, particularly where it extends to effective use of ratepayer funds.

But they've also used a range of methods to maximise the effectiveness of their infrastructure and extend its useful life. But you know there are limits - they've noted that 15% of their assets are fully depreciated, and 26% are past the end of their useful life, which is a concern. But seeing what they are looking to invest in that infrastructure is very important, particularly for Sydney, where we are seeing the dual pressures of climate change and population growth, really testing the models of delivery.

**Andrew Nicholls (IPART):** Alexi, we might just get you to sort of wrap up fairly quickly, if you don't mind.

**Alexi Gilchrist - PRCG:** I think a few of these comments can go into a submission with Cooks River Alliance. But just one final comment. While I can't speak for everyone's circumstances, I do note that Sydney has some of the lowest water rates in the country. As a harbour city, Sydney is defined by its relationship to water and as well past time. We as ratepayers, start paying what our water is worth, not just what it costs. So, we can have clean, safe water in perpetuity. Thank you.

**Andrew Nicholls (IPART):** Brilliant. Thank you, Alexi, and appreciate your comments, and we really do encourage submissions and very much look forward to receiving that. We just need to kind of manage the time a little bit today, just given the number of people who are attending. But we can circle back to those points if time allows.

Lynda, I think, also made a comment about the investment in environmental funding which I'm happy to take that as a comment unless you wanted to speak to that, Lynda, I think you've dropped another comment. I'm just seeing online also about Streamwatch. Was there something you wanted to say, Lynda, or you happy to take those comments as comments.

**Andrew Thomas (Cooks River Alliance and Stormwater NSW):** I can actually briefly speak to that comment actually.

**Andrew Nicholls (IPART):** Yeah, sure. Andrew.

**Andrew Thomas (Cooks River Alliance and Stormwater NSW):** My understanding is that greater Sydney Landcare has taken on the streamwatch program now. And if you reach out to Greater Sydney Landcare.

**Lynda:** I'm very well aware of that thank you Andrew. Yes, along it is a shadow of its former self. So please don't interrupt me. That was an excellent program for Sydney Water to have outreach into the community. So, I'll just make that statement. I'll put everything in the submission. Thanks, Andrew Nicholls.

**Andrew Nicholls (IPART):** Thank you, Lynda. Thank you, Andrew, for those clarifications. As well appreciate it. Alright. Have we got some any other comments or questions, Dean, would you like to respond to that.

**Dean Page (Sydney Water):** Yes, from Sydney Water Corporation again just wanted to clarify for the hearings benefit. Lynda quotes a number of \$600 million over 10 years that was used by Andrew and his presentation. That's just one program in our submission. In fact, over the 5 years from 2025 to 2030, it's approximately \$12 billion dollars across capital expenditure and operating expenditure that we will spend on protecting the environment over that period. Thank you.

**Andrew Nicholls (IPART):** Great. Thank you for that clarification, Dean. Are there any other questions or comments on any of the range of issues that you've heard from Sydney Water. Stuart.

**Stuart Wilson (WSAA):** Thanks, Andrew, if I may, I might make a very short statement no longer than I made at the Hunter water submission. Look thanks for the opportunity to make a comment. My name is Stuart Wilson. I'm the Deputy Executive Director of the Water Services Association, and WSAA is the peak body for water utilities in Australia and a couple in New Zealand. We'll lodge a submission and put all this on the record for you. But I wanted to make 3 brief points.

First, the drivers of greater capital expenditure that we're seeing in Sydney and for water NSW and for Hunter are typical of the national trends. I won't repeat what Roch has said in relation to investing for growth, climate change, and aging assets, except to say that all utilities are facing those same challenges in some different combinations. So my first point is, really is, NSW is not an outlier, and the utilities under price review are not alone in needing to increase investment. Yeah, we'll, we'll put this data in a submission. But in fact, these trends have, we've been starting to observe for some time between 2014-15 and 2022-23 for the 20 largest utilities or so we saw capital expenditure broadly double from \$3 billion to \$6 billion a year.

And the reason that that didn't have a price impact is because we primarily saw the cost of capital and interest rates go down over that period. But what we're seeing nationally now is an acceleration in that we're seeing a doubling of capital expenditure to over \$6 billion a year by 2026-27 and, as we've been saying, in various public forums, such as Oz Water or the ACCC conferences, if nationally investment in Capex is going up, Opex is going up and the cost of capital is increasing, then it's inevitable that there will be a price impact. So that was point number one.

Second, what we're seeing in this change in investment isn't a once off change, but a step change, or, in fact, a transition. It's not a peak like we saw during the millennium drought when the first round of water security took place. And in that sense, it's a critical decade for the water industry. And indeed, there are considerable risks if we don't get investment right over this decade. And unfortunately, we have real life examples playing out if we don't get in that investment, right. Fortunately, they're not on our shores yet. If we look to the UK, it's the most prominent. A lack of investment in wastewater is resulting in pollution of beaches, lakes, and streams which has destroyed the trust in the industry. And it's now triggered the biggest review of the entire regulatory and legislative framework for water in the UK since privatisation. The Secretary of State said, our waterways are polluted, and our water system urgently needs fixing. That's why they've launched a water commission to attract investment to clean up our waterways and rebuild our broken infrastructure. And so that's sort of a pointer, that that where we don't want to go as a nation, and they're facing significant price increases of around we're hearing 40%. That is average and as high as 80%.

The other example is New Zealand, which is yet to fully land a reform process to deliver its necessary investment. And it's similarly it's got poor water quality, poor system, performance and poor, poor environmental performance.

I think the message there is that we have good systems in place. We have good regulatory frameworks and good structures, and it's important that these processes support those.

And the final point I'd briefly make is how to deal with the cost-of-living crisis. Utilities are concerned, and quite rightly, the Government's concerned about cost of living and IPART's Issues Paper sets out the Government's request that IPART have regard to a number of matters with the powers and processes that IPART has we think it's very well equipped to work through those issues and land on the right solution for Sydney. The point we make is in the light of what we've said about the step change in investment required and the risks if we don't get that right, we just want to point to our fiscal flag a risk of deferring investment purely on cost-of-living grounds. Roch outlined the measures that Sydney Water is taking to address customers who are struggling to pay, and that's you know, and that's a very wide suite of measures.

Also, we know that that IPART sets the maximum prices and that under the corporatization model governments can set less than the maximum price if, after the events play out, they feel that more is required, and that's we've seen in South Australia for their price determination, we saw the regulator do its work, and then, at the end of the process, we saw the government come to the party and moderate its returns in some respect to deal with these issues. Thanks for the opportunity to put that on the table. We'll bundle that up in a submission and look forward to further engagement. Thank you.

**Andrew Nicholls (IPART):** Great. Thank you very much, Stuart. Look, it's probably a good point here to now to hear from IPART, and then we can open the floor, and we'll have a good hour to then have a very robust discussion and Q&A session. So, I will now ask Eva McBride to present on behalf of IPART.

## 2.3 IPART's presentation

**Eva McBride (IPART):** Thank you, Andrew. Good morning, everyone.

Sydney Water has proposed increasing its prices over the next 5 years. This is largely to cover the costs it proposes to provide water, wastewater and stormwater services, as well as to meet the customer outcomes it has engaged with its community on.

Sydney Water proposes to spend \$26.4 billion over this period, largely comprised of its capital expenditure program – which amounts to more than \$16 billion – and operating expenditure which is around \$10 billion. We will talk about each of these components in detail on the next couple of slides.

To cover this proposed expenditure, Sydney Water is proposing to increase typical customer bills by 18% in the first year followed by an increase of around 7% each year after that. This excludes inflation.

In setting prices, we will review Sydney Water's pricing proposal and how much money Sydney Water needs to deliver on the customer outcomes the community wants, and to cover the efficient costs of providing water, wastewater and stormwater services.



We will also consider the affordability of prices, recognising that access to safe and reliable water services is critical.

In the following slides, I will go over Sydney Water's proposed costs, customer outcomes, bill increases and prices changes.

This slide covers capital costs. Capital costs are what water businesses spend to buy or build new infrastructure and equipment, as well as to repair and replace their existing infrastructure.

This chart compares Sydney Water's past capital costs (the teal columns) with its proposed capital costs (the dark blue columns).

It shows Sydney Water is proposing a significant step up in investment. Sydney Water's proposed capital costs are around 2.3 times greater than the average infrastructure spend we allowed in our last review of its prices.

Almost 60%, or \$9.5 billion, of the proposed capital investment is to deliver new services to cater for growth areas across Greater Sydney.

Projects include building new water assets and wastewater treatment facilities, to meet future customer demand in these growth regions.

Over time, Sydney Water has indicated in its pricing proposal that it intends to address some of this growth by focusing on developing more rainfall independent supply infrastructure, such as desalination and purified recycled water.

Another key driver of Sydney Water's proposed capital investment relates to renewing existing infrastructure. Over the next 5 years, Sydney Water plans to spend around \$6.3 billion on upgrades and improvements. The 2 largest renewal programs relate to:

Improving pre-treatment at water filtration plants and replacing ageing water filtration assets, to support the reliable supply of safe and clean drinking water and reducing its risk of non-compliance with drinking water quality standards.

Renewing and refurbishing major wastewater system mains, including removing decades of silt build-up as well as structural repairs and new internal lining. Sydney Water considers this investment will progress it towards meeting compliance outcomes around dry and wet weather overflows, as well as supporting its customers' objectives to protect the environment and improve the condition of Sydney's waterways

We will thoroughly assess Sydney Water's proposed capital costs to understand how the additional spending will impact customer service quality and standards.

We would like to hear from you and your about their views on how Sydney Water has prioritised its capital spending and how it has engaged with its community on its capital projects. We are also keen to understand what customers think about Sydney Water's service standards for water and wastewater, including what good quality service means to customers.

This slide covers operating costs which are typically the water businesses' day-to-day costs. Sydney Water's operating costs include direct costs such as buying bulk water from WaterNSW, which accounts for 17% of its proposed operating costs, as well as paying employees and energy bills.

This chart compares Sydney Water's past operating costs (the teal columns) with its proposed capital costs (the dark blue columns).

It shows that Sydney Water is proposing its operating costs increase by 16% to around \$10 billion over the next 5 years. .

Sydney Water indicated its higher operating costs are primarily driven by:

higher bulk water costs, which will be discussed in the second session today,

increased operating costs to support the proposed capital investments arising from growth

the costs of meeting new and changing regulatory obligations.

We would like to hear from you and what you think about Sydney Water's proposed increase in operating costs.

Sydney Water has told us it consulted with its customers to find out what is most important to them and through its engagement, developed customer outcomes to guide its service delivery.

This slide sets out the 3 customer outcomes: delivering a great customer experience, delivering safe, clean and reliable drinking water, ensuring Sydney Water protects waterways and the environment.

This slide also shows how much Sydney Water is planning to spend on each customer outcome. These figures include both capital and operating costs.

We will carefully review Sydney Water's business case to determine whether the drivers for and the timing of this proposal are reasonable, including the availability of other long term potential solutions.

Sydney Water has also proposed corporate capability uplifts of \$2.1 billion, to enable the delivery of these customer outcomes. We will be looking closely to see whether this proposed spend on corporate capability uplift is efficient.

We are interested in what you think about Sydney Water's engagement process and whether Sydney Water has engaged effectively with its customers and stakeholders, particularly around these customer outcomes and proposed spending.

We are also looking at Sydney Water's performance measures and whether the proposed measures are appropriate in achieving customer outcomes.

We will consider this as we review its proposed costs closely to determine whether they are reasonable and no higher than they need be.

Based on Sydney Water's proposed costs, it means that the typical residential customer, will see a bill increase of 18% in the first year, followed by 7% increases in each following year. This excludes inflation.

We are interested in how these bill increases proposed by Sydney Water would impact customers and stakeholders.



In setting prices, we will consider the cost-of-living impacts of Sydney Water's proposals and want to hear from you about how we should look at setting prices that are affordable, but still ensure that it can do the maintenance it needs and allow it to build new infrastructure or replace old assets.

This chart compares current water bills with what water bills would be in 5 year's time under Sydney Water's proposed prices for an indicative small, medium and large water user.

There are two types of water charges customers pay which make up the total water bill:

First, the water service charge, which is a fixed charge that customers pay to receive the water service over the billing period, shown by the block at the bottom of the columns of the chart

Second, the water usage charge, which is a variable charge that customers pay depending on how much water they use over the billing period, shown by the block at the top of the column.

Sydney Water's proposed expenditure means that both charges will need to increase. However, Sydney Water has much larger increases to the water service charge than the water usage charge.

To offset the increase in Sydney Water's proposed service charge, the typical household using 200kL each year will need to almost halve its annual water usage by 2029-30.

We are interested in hearing from you about what you think about Sydney Water's proposal to recover most of its additional costs to service customers through the fixed water service charge.

We are also interested to understand if customers would reduce the water used to lower their water bills in response to Sydney Water's proposed price increases., and if so, by how much? We also want to understand what adjustments customers would make to their homes to reduce water consumption.

This slide shows Sydney Water's proposed wastewater bills for residential customers.

Sydney Water's pricing proposal means that the typical household will see their wastewater bill increase by 8% on average each year over the next 5 years to \$907 by 2029-30.

This slide shows the proposed stormwater bill for a typical household.

Sydney Water operates large stormwater drains in parts of Sydney, including the Inner West, Inner South, Parramatta and Eastern Suburbs. Customers in other areas do not pay this stormwater charge.

This slide shows that stormwater bills would increase under Sydney Water's proposed prices. Sydney Water has proposed an average increase of 14% each year over the next 5 years, excluding inflation.

Sydney Water has also proposed changes to how it charges customers for its stormwater services. Sydney Water will be providing stormwater services in new growth areas in Western Sydney, including areas being developed around the Mamre Road and Aerotropolis precincts, as well as Rouse Hill and Wilton.

Sydney Water considers that these stormwater systems delivers health waterways. It therefore proposes raising wastewater bills to recover costs associated with building and maintaining these stormwater systems.

Sydney Water has told us that customer views on this issue were mixed at its customer engagement forums. Some of its customers supported this new approach, whereas others preferred to maintain the current arrangement.

However, Sydney Water found there was generally strong support from customers for maintaining clean and safe waterways. It considers its management of stormwater services in some areas protects waterway health, and therefore there is customer support for its new stormwater pricing.

The impact of the proposed change on bills is not clear at this stage. We will be assessing this as part of our review.

We are keen to hear from customers and stakeholders on who you think should pay for stormwater services? Customers that are connect to the stormwater services, or should the costs be shared across all Sydney Water customers? Also, does your response change if the stormwater services protect or improve waterway health?

We also regulate the fees that Sydney Water can charge for late payments and declined fees.

Sydney Water has proposed to increase both fees to reflect increase in its corporate overheads.

We are keen to hear your views on the proposed increases to Sydney Water's late payment and declined fees.

We are thoroughly assessing Sydney Water's pricing proposal.

We will investigate key issues including affordability of bills and service levels, the impacts of large increases to the water service charge, large increases in proposed capital expenditure and the changes to the recovery of stormwater costs.

We have also engaged independent experts to conduct an expenditure review and to review Sydney Water's customer engagement which is a key focus of our new 3Cs framework.

Overall, we are interested in all your views on Sydney Water's proposal and how customers and stakeholders would be impacted from its proposed prices and spending.

I will now hand over back to Andrew for the comments and questions session, thank you.

## 2.4 Comments and questions

**Andrew Nicholls (IPART):** Right. Thank you very much Eva for that presentation. All right. We now have the balance of time between now and our lunch break at 12 o'clock to open the floor to questions or comments, or feedback on any of the points that you've heard raised today. And, as mentioned previously, you are welcome to put your comments or questions into the chat box. and I'll aim to get to that those as quickly as I can, and to as many as I can, but otherwise, if you put your hand up, I'll also aim to come to you as quickly as possible as well.

So, a lot of issues to digest there. Would anybody like to jump in and ask a question or make a comment? What about the public engagement process? Were there people here today who were part of the public engagement processes? I'd be interested to hear feedback or any other general comments that there might be around how that consultation process worked or if you have concerns about the consultation processes. Have I got any takers. I feel a bit like one of those real estate auctioneers that, you know, is sort of trying to get the first bid so this really is your opportunity to raise any comments or questions that you might have on this very important topic. Now I'll make sure I've got your name right, Iftekhar Is that correct? Oh, it's Ifti sorry. Yes, sorry, hi I didn't recognise you at first Ifti from Sydney Desal Plant.

**Iftekhar Omar (Sydney Desal Plant):** Hi from Sydney Desal. Thanks for the opportunity to ask a question. I'm keen to understand from IPART's perspective how you see this review operating a little bit differently to the past given the new regulatory framework that you've developed because this we're keen as a regulated business ourselves to see how IPART's thinking about applying the new C's framework, can hear your thoughts there. Thank you.

**Carmel Donnelly (IPART):** Ifti. I'll just talk briefly about it. And I will. of course, acknowledge that we've got a handbook for how we apply it, and lots of other information online. So, I'll just try and keep it relevant for everybody who's here today to talk specifically about Sydney Water. This framework is our updated way of addressing all of the things that we need to consider in legislation, and that NSW requires us to consider.

But it's specifically centred around what customers need and want in particular. And we believe it's driven the water businesses to have more and better customer engagement, and that is the intention to understand what their customers value. It's also intended to make the water businesses think not just short term, but to think about the longer term about future generations. and it is intended to drive the boards of these water businesses and management of these water businesses to be accountable for how they balance issues like affordability, safe, reliable services, protection of the environment and put to us what they believe the pricing should be.

That is a little bit of a departure from probably years ago in the past, where IPART needed to do all that work, perhaps without so much work having gone in from the water businesses. And so, I suppose the message to Sydney Desal and other water businesses who are watching this is that we're expecting that these businesses will understand what their customers need and the impacts on their customers to a higher degree than in the past through this process, and that it'll be very transparent.

But you know, potentially, we are able to point to more information that's in the public domain that would be visible to the community about why, there might be a change in prices. so, I'll stop there. But it's recognising that, you know there are boards and executives running these water businesses. If they were any other company. they would be expected to understand what their customers value and deliver on that, and deal with the difficult questions about where to invest, and so on, and we expect them to be able to explain that in a transparent way, as part of looking at the prices.

**Andrew Nicholls (IPART):** Great thanks, Carmel, Ifti, hopefully that answers your question and certainly, we're happy to engage with Sydney Desal as we're heading towards future price processes and look forward to that ongoing engagement. Okay, Lynda, you've raised, I think, a good question there about when Sydney Water said in the presentation what they've heard from their customers.

So, I'm just wondering if somebody from Sydney Water might talk a little bit about the processes that you undertook, and then happy for the group as a whole to reflect on that response and provide any other comments. I'm just, I think you're breaking up. Whoever's trying to answer that one, is it, Stuart?

**Stuart Wallace (Sydney Water Corporation):** Yes Andrew, obviously as part of our customer engagement program that we did involving, you know, 13,000 customers over the 6 phases. Particularly when we did the phases 5 and 6 and we did the deliberative forums, and we did take the customers on that and talk to them in detail about how we operate and the regulatory issues that we have to balance when we're making these determinations. And decisions so they were very much were taken through that process. We took them through how we operate as a state-owned corporation and our responsibilities. Things like the EPA, NSW Health, IPART. So yes, it was part of the education process in phase 5 of the customer engagement.

**Andrew Nicholls (IPART):** Thanks, Stuart. I'm just wondering if it might be helpful. Perhaps you could outline a little bit about the actual process itself. Sort of how you engaged with people and the numbers of people that sort of thing that you're involved with.

**Roch Cheroux (Sydney Water):** Yes, of course. So, we did 6 phases of customer engagement. The first 4 phases we basically did some sessions with across our operating area. So, we did sessions in the city, Parramatta, Penrith, Hornsby, and Wollongong and each of those involved around 100 customers from across those areas and first phase was obviously around understanding what customer priorities were. And that's how we defined the top 15 priorities that are featured in this proposal.

Obviously clean, safe drinking, water and affordability were the top few issues. And then we went to the service standards that people would expect and tested that in terms of you know how they wanted to communicate with Sydney Water, how they would like us to communicate with them on a range of issues.

And then we obviously went through, you know, willingness to pay things like that around some of the things that we were considering as part of this price proposal. Phases 5 and 6 where we were as Roch alluded to was an additional part of the customer engagement process that we took following feedback from our community and customer reference group. The CCRG, we did a deliberative panel sessions for phases 5 and 6 that was essentially a group of 60 customers that was selected by our independent company that did our research with us. And that was done over a series of 4 weekends. So, phase 5 had 4 weekends, and phase 6 also involved another 4 weekends. So phase 5, for example, was where we looked at things that we really drilled down into educating people about our operating and regulatory environment. And that allowed time doing it over 4 weekends to give those customers times to analyse that information we provided to them, and to understand the competing trade-offs that they had to consider.

It allowed them a chance to challenge us and make us consider alternative views. Two of the key areas that we came back to in terms of our price proposal was water supply security and also preventing pollution. And so that was just an example of that phase 5. We would present them with varying options in terms of levels of performance, risk and cost. And basically, the take the customers would then, go away and deliberate amongst themselves using independent moderators to facilitate those conversations.

And then what we tried to; they would come together. And we basically got to the point where we tried to get as much of a consensus as we could. And so, things like water supply security and preventing pollution. We basically ended up with a consensus view of around people that could live with it in terms of investment areas. So, they were the ones that were adopted as part of our plan.

You know, I guess one of the clear things we got throughout this process was that the majority of customers were quite clear that they didn't want our service levels to go backwards. and that they had a pretty low tolerance for risk. And the other key message which I think we touched on before was that they're also in favour of investing now to safeguard our services for the future. And we did sort of, you know, when we're talking about bill increases I guess we started from the premise that most people accept that bills are going to go up, and we spoke about things like water security and preventing pollution going to be over and above those sorts of CPI increases that most people would expect as part of a bill increase, so that were all part of the conversations. And then it was yes, that was quite an extensive program.

**Andrew Nicholls (IPART):** Thank you, Stuart. Lynda, I think you had your hand up. Lynda. Did you want to jump in.

**Lynda:** Okay. Sorry. Unmute.

**Andrew Nicholls (IPART):** That's all right.

**Lynda:** Did you actually test people's knowledge afterwards? How much they actually understood Stuart.

**Sydney Water:** Yes, no, we did, and that was part of the engagement. The moderators would challenge, and that they would have those conversations amongst themselves. They're obviously able to ask other questions as well and we would go back with responses to that. So, it was very much phases 5 and 6 were very much about educating the customers, about the business, how we operate and the way we operate and then providing that context before that would make those decisions.

**Lynda:** Can I also ask did you have the EPA and Department of Health involved? Did they give presentations from the Sydney Water EPA team?

**Sydney Water:** They were invited to come and be in the room, and but they didn't take part in the conversations. We that was done by the independent moderators.

**Lynda:** Yes, and I'm thinking of some of the more contentious like Millstream. Did you have some of the stakeholders that you know, regularly upset about millstream? Come to talk about what it's like when you actually have a beach that's basically out of commission simply because of the overflows.

**Sydney Water:** No, but we didn't have anyone specifically come to that. But as part of the engagement, we did highlight examples of issues that we could face or the consequences if we didn't respond in a certain way. But as part of the analysis, when they were doing the risk versus investment. But we didn't give specific examples like Millstream, for example.

**Lynda:** Well, for instance, I mean, did you go through beach watch and look at some of those beaches that are unswimable for a good percentage of the time, or and where the awareness is pretty low about the human health risks. Was anybody in the room from health discussing it?

**Sydney Water:** No, they weren't discussing it. Health did come along to some of the sessions as observers, but they didn't take part in session.

**Lynda:** Yes, it does concern me. Yeah, thanks very much for answering the questions.

**Andrew Nicholls (IPART):** Alright. Thank you, Lynda. And Denisha did you also want to add a comment? There.

**Roch Cheroux (Sydney Water):** Yeah, I just wanted to add to Stuart's point around he described the very detailed process of the our water our voice customer engagement program. But I wanted to make sure that people remember that we engage with our customers every day through the Contact centre for our field crew through our customer advocates, and so we also have taken on board all of the feedback that we get every day from engaging with our customers

**Andrew Nicholls (IPART):** Okay, great. Thank you for that clarification, Stuart. Sharon.

**Sharon Henrick (IPART):** Thank you, Andrew, and good morning, everyone. I had a just a quick question. It was very interesting for me, Stuart, and thank you very much for the explanation of your description of people spending weekends that you had a moderator. I just had a question about how these customers and the community representatives were selected and did they receive any payment or benefit for from participating in the workshops, and so on.

**Roch Cheroux (Sydney Water):** Yes. Good question. Sandwich, huh! Yes, no. So, in the first 4 phases, when people did turn up to those events, as I mentioned, right across Sydney and Wollongong there was a payment, and we also did provide them with a meal, because it was a 4 hour session done in the evening so 5pm to 9pm and then, obviously, the people that were involved in the deliberative forums. They were also paid for their time on the weekend. And we also did also provide catering for that because it wasn't all day events.

So yes. And they were basically selected randomly from a research panel that was provided, and they sort of provided the list of names to Cantor, who ran those sessions, and it was done in a way to try, and as best as possible get a representative example from that particular location that we did. Obviously for phases 1 to 4, and then we tried to for phases 5 and 6 it was a representation from across our operating area.

**Sharon Henrick (IPART):** Yeah, thank you for that. And I don't mean to put you on the spot. So, if you can't answer this, you can come back to us, of course, but how much were they paid?

**Roch Cheroux (Sydney Water):** Yeah, we'll come back to you.

**Sharon Henrick (IPART):** Okay. Great. Thank you.

**Andrew Nicholls (IPART):** Great thanks for taking that on notice Stuart. Are there any other questions or comments? What about the bill increases themselves? That's obviously the issue of the day and we've been specifically charged with looking at both value for money and affordability during the current challenges that people have economically.



Are there any comments that people would like to make about the proposed bills? we heard from Dorothy previously about the distribution of the pills and the increases, but also just about the quantum itself. Does anybody want to speak on that topic or drop something into the chat? Now we got a lot of people signed up. So some of you must surely have some views or comments that you'd like to make me go to some of the other points that have been raised today the performance measures that Roch showed earlier and the commitment to hold themselves to account at Sydney Water for a set of outcomes and performance measures. Has anybody got any comments about those points? Doesn't look like we have a very chatty crowd today. You're very welcome to make comments, either drop them in the chat. Oh, Kurt, I think you've dropped something into the chat. Thank you.

So, we note the high percentage of capital spend over the next 5 years. This will occur in parallel to reintroduction of infrastructure charges which are focused on growth. What causes the funding gap, Kurt did you want to elaborate on that before we go to Sydney Water?

**Andrew Nicholls (IPART):** We're happy to take that question directly. I'll take that as just going straight to the question if somebody from Sydney Water wanted to respond to that.

**Roch Cheroux (Sydney Water):** Yes, Andrew. Dean Paige here, happy to.

**Andrew Nicholls (IPART):** Thanks Dean.

**Roch Cheroux (Sydney Water):** Yeah, thanks for the question, Kurt. As Kurt identifies, infrastructure charges are being reintroduced, for as part of the funding mix for our infrastructure assets. They were reintroduced or recharging on 1 July 2024 and we'll set initially at 25% of the full level of the infrastructure contributions, and then we'll rise to 50% on 1 July 2025, and to the full 100% on 1 July 2026. As I mentioned they are part of the charges. So, when a developer or proposes and progresses a development as part of providing that infrastructure they'll make a contribution to the cost of that infrastructure. The reason a funding gap arises is really the timing and the profile of the expenditure for the assets in ground and treatment assets in some cases, and when the developments and when the residences are connected and start taking our services because we spend the capital investment upfront to be able to provide that infrastructure.

We have a funding cost that comes with providing that infrastructure that is absorbed in the business or is part of our overall revenue requirement. And then the receipt of those infrastructure contributions happens as those connections are made and some developments that can be a short funding gap as developments progress quickly, and that capacity of that infrastructure that's put in place is utilized. But some of those developments may take, you know, 10, 15 years or beyond, for the full capacity that's put in place as part of those assets to be utilized by customers connecting.

**Andrew Nicholls (IPART):** Great. Thank you for that clarification, Dean, and hopefully, that's addressed some of the concerns that Kurt has raised the question. I'll go to Marcus next.

**Marcus Crudden (ESC):** Marcus Crudden the Executive Director of Price Monitoring and Regulation at the ESC in Victoria. So clearly not my task to be assessing this, but I guess we're one year into a pricing period in Victoria, where we had similar steps up in capital, and we just released a report, noting a significant number of projects delayed, deferred, and a very heated construction market.

So just a question, Sydney Water, about the confidence and what perhaps structural changes you're making within the business to be able to really ramp up and send this really high extra level of capital within a fairly short space of time. I'd just be curious, because I think this is a challenge on deliverability, for probably all water businesses around Australia with the current civil construction market.

So just be interesting to know how they plan for that and what they're doing to ensure deliverability of the program.

**Andrew Nicholls (IPART):** Great question. Thank you, Marcus.

**Roch Cheroux (Sydney Water):** Thank you for the question, Marcus, and yes, it's an excellent question, and obviously as part of our proposal and should I part confirm it, then absolutely, we need to get on with delivering the infrastructure that is expected to be delivered on this proposal. I think, from some earlier slides that Eva shared as part of the IPART presentation you would have seen on those slides that the jump, well is a big jump overall period to period. I think Eva mentioned a significant increase, circa you're getting near a 80% increase period on period. We have seen in our current period that we have started that increase in our capital investment. So moving from circa a billion dollars a year before 2020 to deliver \$2 billion in the 2023-24 financial year, and on target to deliver \$2.6-\$2.7 billion in the current year, and that increases to a bit over \$3 billion as we look at the next five years out to 2030. We have been working internally to build our internal capability, but importantly, to build our external sort of vendor ecosystem, if you like, partners and subcontractors and contractors on our major projects that that will work with us to deliver this infrastructure for Sydney.

That that's been a process over the last 4-5 years, and has seen us undertake a couple of our supply chain expos, where it's given an opportunity for us to present on our pipeline of investment, and what we've been finding is that it's given vendors and constructors the confidence to in some cases establish operations in Sydney, but certainly for others to grow their water and wastewater sort of capability to work with us to deliver that infrastructure. We've also found in some recent major project tenders that we have been receiving bids from New to Sydney Water tenderers. So anecdotally it appears that our efforts to build that ecosystem has had positive impacts and gives us a high degree of confidence that if our submission is approved, that we can move into the next period and achieve those increased levels of capital investment over the next period.

**Andrew Nicholls (IPART):** Great. Thank you. Dean. Marcus, your hand still up. I wasn't sure if you had a supplementary there, or that's still a raised hand.

**Marcus Crudden (ESC):** I didn't, really, but I did have one. Probably Darren's prior answer about you know. I guess the lumpy nature of the capital in water, and perhaps the difference between costs and benefits, and noting some of the benefits and full utilization of some of these assets might be decades away. You know an answer to Kurt's question. So how have Sydney Water taken that into account in the cost recovery profiles and the depreciation profiles? That's saying, you know it is a feature of water that we get large lumpy investment from time to time, but the benefits may be when there's an extra million people living in the city. Have they sought to reconcile those costs and benefits in the timing of the price increases, and the recovery of infrastructure costs over time?



**Roch Cheroux (Sydney Water):** It's a really good question Marcus, Roch here. So, we know that investment can be very lumpy. And this is what we are avoiding in our capital program. So, if you look at the capital program, actually, the new treatment facilities, for example, are all designed with tranches so that we don't invest into the full capacity for the future. But we just invest in the tranche one of the treatment facility. So, this is definitely something that we are taking into account to manage the investment, and also manage the risk of growth.

**Andrew Nicholls (IPART):** Great. Thank you, Roch.

**Marcus Crudden (ESC):** Thanks, Darren, for that.

**Carmel Donnelly (IPART):** Yeah, could I just jump in there because to some degree Roch, that's half of the question of the schedule of delivery of capital works. But the other half, I think of Marcus's question is about the financing of it over what might be a future generation of people who will benefit, who don't pay bills today. That sort of question about the timing of recovery of the costs through prices.

**Roch Cheroux (Sydney Water):** Yes, and I would say Carmel, that it goes with it. So, we that's why we want to limit the investment upfront, so that the current customers are not paying for something that we deliver service for our customers in the future. But we really have intergenerational equity between our customers. So, the profiling of the investment is really important, and we know that in some cases, we will have to invest into a larger asset that we need, because even looking at the long term, it's more efficient to do it this way. But as much as we can, we scale the assets so that we can demonstrate a level, a good level of intergenerational equity for our customers.

**Andrew Nicholls (IPART):** Right. Thank you, Marcus, for those queries. Before I come to Stuart. I might just jump to a couple of points that Lynda's made online. I think there's firstly, a question which is perhaps a more general question. If someone can comment on the split between Council's responsibility and Sydney Water's in relation to storm water. And then I think there's a there's a specific question there from Lynda about examples of contaminated water being cleaned, and then, transferred to groundwater treatment processing and other examples. So is there someone who might be able to just sort of clarify those couple of points, both the general and the specific on Stormwater. It's an interesting area, and happy also to open the floor to any comments on the approach on Stormwater that Sydney Water is putting forward.

**Roch Cheroux (Sydney Water):** Can comment on the first one. I'm not sure.

**Andrew Nicholls (IPART):** Thank you. Roch.

**Roch Cheroux (Sydney Water):** In terms of allocation of responsibility, this is something that's decided by governance. So, we are responsible for some function of stormwater, and sometimes the councils are responsible in some areas. So, our approach has always been to work together with councils, because we know that it's always about catchment area, and the catchment is usually shared between Council Asset and senior water assets. So, our approach is to work with council so that we manage stormwater impact in the city as best as possible.

**Andrew Nicholls (IPART):** Okay, and then in relation to the sort of the second question, it's perhaps quite a specific question. Maybe it's to take on notice. I'm getting some nods around on that one.

**Carmel Donnelly (IPART):** We'll take that on notice.

**Andrew Nicholls (IPART):** And Lynda, was there anything else on stormwater just before I jump to Stuart that you wanted to add?

**Lynda:** Now I'm off mute. I appreciate that there's talk with councils, but I don't have confidence in this whole catchment approach between Sydney Water and councils. I've been to a few forums, and very rarely is anyone from council present. The last one I attended earlier this year had only one submission from a council, and that was because they wanted a connection at Scotland Island. So, I don't feel as though everyone is working together for the greater good.

**Andrew Nicholls (IPART):** Thank you, Lynda. We'll take that as a comment.

**Carmel Donnelly (IPART):** I'll just add that I have written to Local Government NSW to draw their attention to these reviews and seek input from councils. We'll take your point on notice. I know you're going to go to Stuart next, Andrew, but I have a question I'd like to flag.

**Andrew Nicholls (IPART):** Great, thank you, Carmel. Stuart?

**Stuart Wilson (WSAA):** Thanks. I wanted to address Marcus's question about deliverability. When we're spending more nationally, it's a valid concern. When we talk to Infrastructure Partnerships Australia, they mention that while our total infrastructure spend seems large, we're not huge on a national scale. They're seeing an "infrastructure window" opening up as some major transport projects are completed, so what looks like a deliverability issue may not be so nationally. That's what I wanted to highlight.

**Andrew Nicholls (IPART):** Thank you for that, Stuart. Carmel?

**Carmel Donnelly (IPART):** Yes, I just wanted to hear from Sydney Water about what efficiencies you've identified and what capacity you have to offset some of the proposed increases with savings in other areas. What thinking has gone into that?

**Roch Cheroux (Sydney Water):** Thank you, Carmel. As part of our proposal, we outlined some efficiency offsets across both operating and capital expenditure. In terms of operating expenditure, we're offsetting about 6% per annum, and approximately 7% of capital expenditure is being avoided through better planning and looking at other solutions. We've challenged ourselves as a business because these savings directly impact on the revenue requirement and the prices our customers pay for water and wastewater services. Around the operating expenditure we've benefited from IT investments, and we're planning several transformation projects. These include a new field workforce solution and upgrading our spatial systems for great productivity benefits. We're also enhancing our developer systems to streamline processes, especially as growth in Sydney increases the demand for efficient service. These investments are expected to meet our efficiency targets, and continuous improvement is part of our business strategy. We're confident we can deliver the benefits outlined in our plan over the next five years.

**Andrew Nicholls (IPART):** Thank you, Carmel and Dean. Are there any other questions or comments from anyone online? If not, I suggest we adjust the schedule slightly. We'll break for lunch now. We've scheduled a 30-minute break, so let's reconvene at 12:15 instead of 12:30. We'll continue with presentations from Water NSW and IPART, and there will be time for questions or concerns. Please stay online if you'd like, or you can dial back in. If you stay online, just mute yourself and turn off your video. We'll start again at 12:15 sharp. Thank you.

### 3 Session 2: WaterNSW Greater Sydney

**Andrew Nicholls (IPART):** Alright, we might get underway, and thank you for accommodating an earlier lunch break and an earlier start for the water. NSW, part of today's presentation just for a little bit of explanation. The bill that you pay from Sydney Water has a component made up of the payments that are made to WaterNSW as part of the services that they provide in turn to Sydney Water, and they currently have, and a couple of other entities in the Greater Sydney metropolitan area.

And so, we consider it important that these are considered at the same time, as we are considering both proposals before us at the moment, because the combined effect impacts on everybody's bills. So just to give you that little bit of explanation as to why we're having the approach that we are today.

So, as I say, welcome back, and we'll now start our second session, starting with a presentation by WaterNSW, on its pricing proposal for Greater Sydney, and again, as we did in the previous session. After that presentation, we'll have a short session for discussion, and then there'll be an IPART presentation, and then we'll wrap up today with further discussion. Okay, over to Andrew George, the CEO of WaterNSW, for the WaterNSW presentation. Thanks, Andrew.

#### 3.1 WaterNSW presentation

**Andrew George (WaterNSW):** Thanks very much, Andrew. Good afternoon, everybody, and thank you for being here this afternoon. Thanks to IPART. We'll get started. I would like to acknowledge as well today the traditional custodians of the land and waterways upon which we're all meeting today. I'm joining you from Gadigal land here in Sydney, and I certainly pay my respects to their elders, past and present. I'd also like to extend, in particular, my gratitude to the Aboriginal communities and their elders, who we engaged with as part of this pricing submission, and who were so generous with their time on these engagement road shows. We learned a lot about what we can do. And there's a lot more we can do as water and catchment managers to be improving people's access to waterways, to catchments for both cultural and economic benefit, and we are committed to walking with our communities and our partner agencies on that journey together.

Quick outline of today's presentation. We will look at our proposal at a glance. We do want to touch on our engagement as part of the C's, which is unique for us in Greater Sydney. We'll talk through our expenditure summary, in particular what's driving our costs and our revenue requirements, and then round it out with the proposed revenues and prices at the end.

As Andrew touched on, a little bit of context about WaterNSW. We often talk about ourselves as being at the source, not being at the taps, which is obviously Sydney Water in Greater Sydney. We are a dam and catchment manager. We operate dams across the state. Half of those dams are in the Greater Sydney basin, so we certainly operate at a basin scale. We're a state-owned corporation, and we are infrastructure operators. We are not the department. We don't make the rules or the policies; we implement them.

Our role specifically in Greater Sydney. We work together with Sydney Water, who is obviously by far our largest customer. The Sydney Desalination Plant also has a role in the provision of source water for Sydney as well. While Sydney Water represents about 99% of the water we provide across Greater Sydney, we also have important relationships with four major councils, as well as around 60 smaller customers in the Greater Sydney area.

Setting the scene for our pricing proposal. Certainly, the economic conditions and the regulation on WaterNSW are big contributors to what is driving costs. In fact, about 67% of our increase is due to factors that are outside of our control. We are only seeking the lowest sustainable cost to keep the systems running, no more and no less.

We have come into this proposal, taking a sharp knife to our costs. We have stripped out 10% of our costs as a business. That includes an additional \$133 million in costs over the next 5 years being removed. \$60 million of that can be attributed to savings in Greater Sydney as a business. We've also deferred around \$860 million of capital works into the next period, and by deferring those costs, we obviously take on more risk. But we've done so in a way that we think is prudent, as well as being efficient. About \$344 million of that reduction can be attributed to Greater Sydney.

Our challenges are that the economic factors and the regulatory environment are putting upward pressure on our costs. Our investments are in assets with shorter lives in this period, which has a quicker depreciation, and that's putting upward pressure on our revenue requirement as well. We're also seeing lower water usage, which has led to a \$25 million revenue shortfall in this period, and in the future period, based on the forecast from Sydney Water, we're also expecting a 13% lower volume forecast compared to the current period. A big part of that is due to the role of the Sydney Desalination Plant.

We are managing financial and operational risks. There is investment that is driven towards climate risk, particularly at Warragamba Dam, which we'll touch on later, and a range of new regulatory obligations, that put together, under the current tariff structure, this contributes some risk to our revenue requirement.

So, we did come up with some solutions. We have invested in the outcomes the customers want. We have invested in our assets for future generations, and that long-term planning for a more sustainable financial future for WaterNSW is really important because that will also help put downward pressure on customer bills. So, one of the solutions that we'll touch on later is proposing a shift to a revenue cap to manage that volume risk that I've alluded to earlier. Thank you.

In meeting IPART's 3C's framework for Greater Sydney, it is a unique environment. It's very different from the environment in our rural valleys, which we presented on at this hearing last week. In Sydney, we have a very unique role that we play together with Sydney Water in supplying water directly to Sydney Water, who takes the vast majority of the water in Sydney.

Through our operating license issued by IPART, we have a number of formal mechanisms that support that engagement. But of course, we go further with Sydney Water in the way that we operate. A lot of that, as you'd appreciate, is day-to-day engagement. We work hand in glove to support the provision of safe and high-quality drinking water to Sydney, and that is explored through a range of instruments, including our joint long-term capital and operating plan that is developed jointly with Sydney Water. The same applies to our drought response plans. We have MOUs in place. Not to forget our council customers, who are very important to us as well.

We certainly engage with them through our customer advisory group consultations to bring them on the journey. In all of that, we have explored alternative funding scenarios and different mechanisms to keep downward pressure on our customer bills. When it does come to costs, our proposal is driven largely by just 2 policy or regulatory-driven projects, which make up more than 60% of our proposed capital program. We have sought to defer \$340 million in capital for Greater Sydney to help keep that downward pressure on our bills. We've also got that \$60 million reduction in operating expenditure as well, which includes a 1% per year cumulative efficiency target built-in.

From a credibility perspective, we believe our assessment of our ability to deliver our capital program is absolutely achievable. In fact, compared to the current program, putting aside the 2 large projects, it is actually smaller than the period we've just been through. So, we are, from our perspective, coming off that peak wave. Our capital program is going to return to more sustainable levels through this next period. We've also implemented cost transformation throughout the business as well, which continues to put downward pressure on those bills.

From an engagement perspective, lots of conversations around that right level of service. We have leveraged the end-user consultation that Sydney Water has undertaken. They ran, as you would have heard this morning, a very in-depth and expansive consultation with end-use customers in Sydney. It was more efficient for us to leverage off that, and, interestingly, there are very strong parallels with the feedback we received from consumers in Greater Sydney and the feedback we received from consumers in regional NSW. So, that has supported us in putting together a holistic, integrated, pricing proposal with very common synergies from end-use customers across the state. Those long-term capital and operating plans really reflect those priorities. To put it plainly, our role in supporting water supply to Sydney is really to support Sydney Water in achieving its objectives. In practice, as Sydney Water transitions to more rainfall-independent supplies in the future, our job is to continue to maintain the existing bulk water infrastructure network so that it can reliably perform its role while Sydney undergoes that transition.

In terms of what we heard, I've touched on the fact that those themes are very consistent across all the engagement activities, not only in Sydney but also across regional NSW. In terms of how we deliver this program, our focus, as I said, is investing in renewing or just really maintaining that existing infrastructure so that it can keep meeting that service level obligation into the short to medium term while Sydney goes through that transition. But we are investing more in digitally enhanced services as a business.

So, we are seeing a bigger step increase in our technology investments, which has a shorter depreciation. We'll come to that at the end of the presentation. In a nutshell, there's \$1.5 billion in our capital program for Greater Sydney. Two-thirds of that are largely around 2 large regulatory-driven or policy-driven projects in Warragamba, with about \$0.7 billion in our operating program.

What does that mean for prices? That revenue requirement of \$1.7 billion is a 38% increase. It is large. It is driven, as I said, earlier, by a lot of the regulatory obligations and the macroeconomic conditions on the business. That translates, though, to less than a \$1 a week increase in a typical end user Sydney Water customer bill for the bulk water services that we provide.

So, we've reduced, we have reduced costs that are within our control, but we are proposing as well a revenue cap with a small 2% side constraint to manage that volatility into the future so that that bill impact can be predictable and constrained over the next 5 years.

So, looking in a little bit more detail now into the drivers, and having a deeper look at our operating expenditure, our proposed operating expenditure is just under \$700 million over the 5 years. It is broadly in line with this final year of the final determination for us, for greater Sydney, and a lot of those drivers are things that are outside of our control, and we've listed them here. They include things like land tax, our insurance and electricity supply costs. We also have license fees for the bulk water purchases from the Fish River scheme which come from government, and we also have other regulatory drivers to upgrade our cranes and electrical systems to meet modern regulatory standards. So, we have proposed around \$60 million in additional efficiency savings over the 5 years on top of these costs.

When it comes to our capital expenditure we've, compared to our previous period, you can see our forward capital program excluding the policy and regulatory driven projects is declining over the 5 years from the current peak. So, we are, that's about 16% lower than our forecast capital expenditure in this financial year. On top of that is, the \$344 million that we have deferred to beyond 2030 to try and maintain a more reasonable capital profile that gets smoothed over a longer period within a tolerable risk appetite and framework. So that does mean that our capital program is largely consistent with the current capital program. Those 2 big projects of Warragamba, the Climate resilience project and the environmental flows project do represent around 68% of our total capital program.

Peeling back the onion layers on our capital program a little bit further, what I want to draw your attention to is those assets which have a long regulatory life. So, dams which have a 200-year asset life in particular, make up about 50% of our capital program.

We do have a larger proportion this time around, though, in ICT systems, controls, and lease assets which have a much shorter asset life of around 7 to 10 years, which is why we're seeing a higher amount of depreciation in the proposed period going forward. Major mechanical and roads and civil: a large portion of that is actually to do with the regulatory obligations I spoke about before with upgrading our assets for particularly around cranes and electrical equipment to meet current regulatory requirements.



Looking at it from a revenue requirement perspective, we thought it'd be useful to illustrate the drivers of the revenue requirement. You can see here about 90% of the \$93 million average annual increase is due to 3 dominant drivers. The first is the return of capital, representing about 44% of the increase. And that's due to higher Capex for major projects in investment, about 50% in the forward period, and about 50% of that is for investments that have already occurred. But it's the difference between the two over and the difference in the asset lives the average weighted average asset life in the new period, falling to 31.9 years compared to 47.5 years in the previous period. Related to that is the return on capital representing about 24% of the increase, and a lot of that is driven by the increase in the WACC going up from 3.4% to 3.6% based on IPART's current methodology. And Opex as well around 19% in total of the contribution to the increase here. \$13 million of that is in response to those broader macroeconomic conditions on both the new and existing assets, as well as those regulatory requirements that I spoke of before.

When it comes to form of control and price structures, we have tried to take an enterprise view across both regional NSW and greater Sydney. Our challenge in Greater Sydney, though, is the volatility we have, not just because of weather, but also because of the role that the Sydney Desal Plant plays in providing that, if you, like source water to Sydney Water. We had a \$25 million revenue shortfall in this current period. So that is revenue that was, if you like, expected or planned for at the beginning of the period that we did not receive. So that is because of the operation of the Desal plant. It needs to be recognised that the Sydney desalination plant does not just operate in drought, it also operates to help Sydney Water, in particular, but the agencies in Sydney manage water quality risk, which we saw water quality risks arising out of the floods and the fires in the early years of the pricing period, which meant it was the prudent and appropriate thing to do to turn on the Sydney Desal plant. That ultimately meant that we weren't providing bulk water sales to Sydney Water. So that under recovery of those efficient costs is ultimately not in the long-term interest of custom for water, NSW or our customers. So, one of the ways we're looking at dealing with this is to put in place a revenue cap instead of a price cap. For Sydney, with relatively predictable demand, we think we can have a much smaller side constraint of just 2%. So that means that our revenue wouldn't vary by more than plus or minus 2% in any given year, depending on the prevailing conditions.

Our engagement with Sydney Water identified that clearly the status quo is not sustainable in the long term either and that something does need to change. And that a revenue cap with a side constraint is probably more appropriate for WaterNSW in our context than just simply increasing the fixed charges. And we do recognise that is different to Sydney Waters approach, where Volume risk is seen as a key issue for both of us, however, we know Sydney Water has a different starting point with having a demand volatility, adjustment mechanism in place. So, at the end of the day, though, this still does ensure we only recover our efficient costs as determined by IPART - no more and no less.

In terms of managing risk, we are proposing a holistic approach to risk management which does draw on regulatory best practice. In essence, we're looking at 3 different levers here: cost pass-throughs for nominated and general events, cost true ups, or in the rare case that we need to, full or partial re-openers for major events that were completely outside of everyone's control at this point. We think that presents a fair sharing of risk while still respecting and protecting the long-term interests of our customers and the wider community.

Perhaps just by way of illustration, example, some of those pass-through costs might be for electricity during drought. So, electricity, usage for our pump stations in the Shoalhaven in particular, big energy consumers, but only when required, or the city Diesel plants operation as I mentioned earlier.

So, our proposed prices: about 80 cents per week increase on what they are today for a typical Sydney Water residential customer's bill, translating to about \$42 on average per year. So that will enable us to deliver our bulk water services and the capital protection functions that we provide in Greater Sydney at the lowest sustainable cost. Those prices are forecast, though, to increase on an annualized basis by 13% for council customers and 14.7% for raw and unfiltered border customers, of which we have about 60 customers in Greater Sydney over that 5-year period.

Sorry the other way. Thank you.

So just to wrap up in conclusion, look obviously, clearly, costs have increased, and they are largely due to those economic and regulatory drivers that I spoke to earlier. We have left no stone unturned to reduce our costs wherever we can. And we have put forward alternative scenarios to minimize the impacts on prices. So balancing things outside of our control with that which will genuinely add value to customers is something that has been top of mind for us in the development of this proposal. Noting that almost 70% of our capital program is driven by regulatory requirements.

Our business, as usual capital program, however, is 16% lower than what we're forecasting in this current financial year. But that higher WACC in the increased investment in shorter lived assets is one of the key drivers that is putting upward pressure on those required revenues. Coupled, though, with lower water volumes being taken by Sydney Water does lead to a revenue shortfall and higher variable charges, which we need to manage. And I make the point that there is not enough scope within the business to cut these increases out altogether without having a detrimental impact on the financeability of the business nor the State's credit rating, should that be made up through greater gearing, for example.

So, our focus is on absolutely continuing to deliver safe and reliable drinking water supply to our customers across Greater Sydney. This proposal will cost an additional 80 cents per week for that typical residential customer bill of Sydney Waters. And, interestingly, we also know that that means, given the challenges, Sydney Water also have very similar to ours with a broader macroeconomic environment. What that means is that our contribution to an end water-users bill remains in line with the current proportion of the bill that it is today.

And that's it from our introductory comments. Andrew, back to you.

**Andrew Nicholls (IPART):** Right. Thank you very much, Andrew, and appreciate your time and your presentation today. We're going to follow the same format that we did earlier in that we'll have an initial opportunity to ask questions or raise comments on what you've just heard. We'll then have a presentation from IPART in terms of some of the things we're considering and the questions we're asking, and then we'll open to general discussion. So, on that note. Is there anyone who'd like to ask any questions or comments? Carmel.



**Carmel Donnelly (IPART):** Thanks. Andrew and Andrew. I might go first, first if you don't mind. I would like to shine a light on this proposal from WaterNSW for a revenue cap, and I have a question which I think I will ask you to speak to first, first perhaps, Andrew George, and then, if we still have people from Sydney Water here, I'd like to hear their perspective as well. And that's one of the things that's the benefit of having both WaterNSW and Sydney Water in this public hearing.

I certainly understand the point that you've made about, if there's a reduction in the amount of water that Sydney Water is taking from you, then, based on a maximum price, your revenue might be a shortfall, and you still have fixed costs. So, I understand that economic issue. But my question is: if I put on the hat or the perspective of a customer, so, my question for Sydney Water would be, how would they deal with that impact in terms of their customer bills of having a stable revenue ask from WaterNSW? And thinking about the scenario certainly over this 5 years, but potentially into the longer term, what if there's more rainfall independent water being supplied to Sydney Water, such as we get from the desalination plant? What if it is increased because of water recycling? What if customers faced with steeper bills from Sydney Water use less water? So, there's what an economist would call, you know, demand elasticity. But what if people cut back in order to make that water bill fit into their budget? Doesn't the revenue cap mean that WaterNSW charges the same and that might flow on to Sydney Water bills and customer bills, even if they're using less of your water? So, what would you say to a customer asking that question?

**Andrew George (WaterNSW):** I'd say, you're right. Our business is a fixed cost business. So, the cost for us to manage the business does not change, irrespective of whether we're in flood or we're in drought or the amount of water that the customers in the community use.

And that's a perhaps a feature of all utilities to some extent, but for WaterNSW we, in this current period, we have been subject to enormous revenue volatility in our rural business and perhaps surprisingly, to a larger degree than expected in our greater Sydney business.

So, when we look at water, NSW as one business with a greater Sydney business segment, we need to look at our financeability across the entire enterprise, and we need to be managing risks across the entire enterprise. And if we don't get the balance of risk right between our business segments, there will be inherent cross-subsidization or otherwise we will not recover enough revenue to actually deliver our legislative and regulatory obligations.

So, in effect, what's happened as a result of this period, with the \$25 million shortfall, we've effectively had to find 25 million dollars of savings within the business in order to make up the difference. That has been unplanned savings, though, because of the unexpected nature of, it wasn't in in our long-term pricing plan. So, it causes a lot of disruption to not be able to plan on that basis with a higher degree of investment certainty.

**Carmel Donnelly (IPART):** Okay, thank you for that. And I just will wonder whether there's someone from Sydney Water who might be able to talk about what's, how would Sydney Water manage this? And what would be the impact for Sydney Waters customers?

**Dean Page (Sydney Water Corporation):** So, at a high level, I would say, as part of developing our proposal, we did look at a revenue cap versus a price cap and we can certainly see the advantages for a regulated entity in having a revenue cap that enables that more immediate, or an opportunity for more immediate, true-up of that sort of revenue or volume sort of issues. We didn't put it forward in our proposal because we were, we do have an adjustment mechanism that's done as a whole period. Adjustment mechanism as we enter the next period. And we were also concerned that with a large revenue requirement and a large revenue increase already being put forward in our proposal that the potential for in year or year-on-year additions to that, we thought that maintaining the 5 year or the full period true-up was better for our customers over this 2025-30 period.

If WaterNSW were to introduce such a mechanism, at the moment we wouldn't have a sort of flow through, certainly not contemplated in our proposal that we would do the year-on-year sort of flow through, but certainly as part of the review process that IPART are undertaking at the moment, we would engage with yourselves, and sort of see if there is a mechanism that could be put in place, or whether it's appropriate, given the quantum of the numbers, and as Andrew identified, the relatively small component of our bill that the contemplated price cap, sorry revenue cap would leave us so, or would be more appropriate to true-up at the end of the period, as we enter the 2030 to 35 period.

**Carmel Donnelly (IPART):** All right. Thank you, Dean.

**Andrew George (WaterNSW):** Might be useful if I ask my CFO Joe Pizzinga as well to expand on the financing risk dimension to this as well.

**Joe Pizzinga (WaterNSW):** Yeah, it's an interesting question. It's a risk, probably very much in the longer term when you've got, you know, fixed infrastructure and the financing that sits behind that. And the importance to, in refinancing and financing, to let the financial markets know that our cost to serve is supported by, our fixed cost to service us is supported by the appropriate revenue requirement.

So, there is a short, more likely, longer term financing consideration around the risk of moving away from you know what we're asking for being a revenue cap to manage those fixed costs to moving to, if we were, to a variable revenue stream, with fixed costs and financing obligations, sitting behind current investments and future investments.

So, it's a good question. But I think, in the when you take on board our fixed costs. our borrowings to date in our forward borrowings, the financial markets would want some certainty around that revenue line.

**Andrew Nicholls (IPART):** Okay, great. Thank you, Carmel, for the question. And to those of you who were responding that was very helpful, and a very important issue because it is it is a step change in the way WaterNSW would be applying its prices and revenue. Jonathan.

**Jonathan Coppel (IPART):** Thank you, Andrew, and good afternoon, all. I'm a member of IPART. Thank you, Andrew George, for your presentation, outlining the pricing proposal that you put in. You started by noting that WaterNSW is a large owner, the largest owner of dams in NSW. I think you mentioned something like 43, and a good chunk of the increase in Capex is linked also to expenditure on dams. I was just wondering what lies behind this seemingly sudden, very rapid increase in Capex on the safety of WaterNSW dams.

**Andrew George (WaterNSW):** Yeah, thanks, Jonathan. And I might throw to my executive manager operations to expand in more detail. But just before he jumps on. I make the point that it's in one dam. It's at Warragamba, just 2 projects. In fact, a lot of the investment goes into the pipelines and canals that we have in the network which are critical for providing the supply of water from the dams to Sydney Waters' treatment plants. Ronan, if you're on the line, did you want to expand on that.

**Ronan Magaharan (WaterNSW):** Yeah, thanks, Andrew, great question. So maybe I'll tackle it two ways. Firstly, the NSW dam safety regulations have changed in recent times, and that has meant we have had to review our systems and processes and approach to ensure that we are keeping our fleet of dams safe for the community.

As Andrew's pointed out, Warragamba dam is the key driver for the cost increase that we are seeing in this proposal. And it's important to point out, this is about keeping that dam safe into the future in the face of uncertainty around climate, in particular in very large, extreme, and rare rainfall events. So, our focus is on ensuring that dam remains safe, and, as you would appreciate, Warragamba is a very large dam, and any upgrades to that dam are complex in nature, and as such, why we're seeing the large capital investment.

**Jonathan Coppel (IPART):** Thank you.

**Andrew Nicholls (IPART):** Right. Thank you very much, Jonathan, for that question, and Ronan for your response. If I can just remind everybody who's online today, if you have any questions, you can raise your hand, but also drop any comments or questions in the chat. Or if you have any reactions to what you've heard here today, again, drop those comments in the chat. All of the chat comments form part of the information that IPART takes into account when considering these proposals, so please feel free to use that chat box for that purpose. But if you do have any other questions or comments, please also raise your hand as the other way of doing that. I'll open it to the floor, if there are any other questions before we move to the IPART presentation.

If there are none right now. We will go to the IPART presentation next, and then we'll come back to an open Q&A to close out the session today where we can cover anything you might have heard in the IPART presentation, but also anything else that you might have heard today, overall.

## 3.2 IPART's presentation

Andrew Nicholls (IPART): So, I will. Now call on another member of the IPART secretariat Pramu Chandraratne, who will take us through our presentation on the water. NSW proposal.

**Pramu Chandraratne (IPART):** Thank you, Andrew.

This slide covers WaterNSW's capital costs for the Greater Sydney region. The chart shows WaterNSW's capital costs from the 2020-21 financial year including their actual and proposed expenditure.

WaterNSW is proposing a capital expenditure program of \$1.5 billion over the next five years. This represents an annual average of almost \$300 million a year, which is around 1.6 times higher than what we set in the last review.

There are two main projects driving this increase in proposed spending:

The first is the Warragamba Dam Resilience Project: WaterNSW has allocated \$609 million over the next five years for this project. WaterNSW told us that a detailed risk assessment showed that there is strong justification to strengthen aspects of the dam to ensure compliance with regulation and the dam's ongoing ability to handle extreme rainfall events. Infrastructure options are still being explored, with final approval dependent on a comprehensive business case.

The second major project is the Warragamba Dam Environmental Flows: This project is set to receive \$302 million over the next 5 years. This is to modify the dam to enable the release of variable environmental flows. WaterNSW states that this will improve health and recreational opportunities in the Hawkesbury-Nepean River.

We are keen to hear from you about how WaterNSW has engaged with its community, customers and stakeholders on its capital projects. We are keen to get your thoughts on WaterNSW's proposed capital expenditure program for the Greater Sydney Region, and in particular the two major projects mentioned. We are also keen to hear your views on WaterNSW's proposed Long-Term Capital and Operational Plan for Greater Sydney.

This slide covers WaterNSW's operating costs for the Greater Sydney region.

The chart shows WaterNSW's total operating costs from the 2020-21 financial year including their actual and proposed expenditure.

WaterNSW has proposed modest increases to its operating costs over the next 5 years. The proposed expenditure is almost 16% higher on average each year than what we used to set prices in our last review.

WaterNSW has told us that the key factors driving the proposed increases are:

Digital Costs;

Labour and Contract Costs: Adjustments here reflect the WaterNSW 2023 Enterprise Agreement and increases in the Superannuation guaranteed levy.

Increases in land tax obligations: Some of WaterNSW's landholdings may now be subject to land tax assessments that weren't previously applied by the Valuer General.

Other step increases in costs including compliance uplift and water licencing fees.

We would like to hear from you about what you think about WaterNSW's proposed increase in operating costs.

For context, WaterNSW has four large wholesale customers in the Greater Sydney region: Sydney Water and three council customers. It also provides raw and unfiltered water supply to around 60 other smaller customers.

This chart shows projected changes to Sydney Water customer bills under WaterNSW's proposal.

Under the pricing proposal, Sydney Water customers will see a bill increase of around 14% a year on average. WaterNSW estimates that this will translate to an average bill increase of \$42 a year for a typical household customer of Sydney Water.

In addition to Sydney Water, WaterNSW's three council customers in Greater Sydney region can expect an average annual bill increase of around 13%.

WaterNSW has also proposed to recover its revenue through a revenue cap with a 2% constraint. WaterNSW has told us that this will align with its proposal in the Regional and Rural Valleys.

Under a revenue cap, IPART sets the level of revenue the water business can recover over the period, rather than setting the maximum prices in every year. The water business can set its own prices, and change them every year, to recover that revenue.

We are keen to hear from you about WaterNSW's bill increases and proposed revenue cap. What impact do you think this will have on you?

We will thoroughly assess WaterNSW's pricing proposal in the Greater Sydney region.

Key issues we will be investigating include the proposed large increases to its capital expenditure, particularly the Warragamba Dam Resilience and E-Flows projects, and the proposed revenue cap.

### 3.3 Comments and questions

**Andrew Nicholls (IPART):** Thank you, Pramu, and appreciate that presentation. I'll now throw it to the floor for any questions or comments on either what you've just heard right now, in relation to WaterNSW's proposal, or indeed anything else that we haven't covered today and you'd like to mention today. So, very much this is an open session from this point. So, could I invite any questions or comments? Sharon?

**Sharon Henrick (IPART):** Good afternoon. I'm Sharon Henrick, a member of the Tribunal, and thank you Andrew, and all for the presentation. I just, this is probably a dumb question, so please forgive me in advance. But I just had a question, obviously, and I understand the point that was made about what certainty the financial markets would need about revenues, but I just wondered why Sydney Water (and I know that there are some unknown factors that would need to be taken into account) but Sydney Water would be able to forecast its year-on-year need for bulk water with a contingency plus or minus. And often in these situations, in my experience, what you see is a long-term contract and it might even have a take or pay provision, but it gives everyone the certainty they need, including as two revenues. And I just wondered, and it's not at all clear to me whether you were suggesting you considered that, or whether that would not be acceptable to you, or I just wanted to explore that a little if I could. Just to better understand it. It's really a question for you, Andrew George.

**Andrew George (WaterNSW):** Yeah, sure. Thank you, Sharon. Because we're both price regulated monopoly service providers, effectively IPART is the one adjudicating on what that commercial contract should be, in essence, and what that relationship is. The dynamic nature of the forecast is not so much Sydney Waters forecasts, which are very reliable and we can track along with that quite well. It's the dynamic nature of the Desal plant as it stands today, which, as I pointed out, operates outside of drought now. We also use it to manage water quality, which is manifesting because of the risks introduced into the raw water supply from climate driven events, whether that's floods, droughts, fires, or whatever. So, it's now beyond both Sydney Water's and our ability to forecast when those water quality events in the future may arise, but also recognizing that we're about to start on a journey that is going to increasingly move to more rainfall independent supply as well. So, it is not a stable status quo going into the future when it comes to your traditional forecast demand/supply equations and relationship. That's how I'd start. I don't know if anyone in the team also wanted to offer a.

**Sharon Henrick (IPART):** I'll just ask one more. It's related to what you said. But you could have a minimum as between WaterNSW and Sydney Water. Often these things would be resolved by a minimum take or a minimum volume contract. So, putting aside the uncertainties and vicissitudes, which I accept are legitimate, that you have raised about climate change and water quality and the need to move towards more, you know, rainfall independent sources. So, and I understand what you're saying, and respect what you're saying. And maybe this is already in your contract with Sydney Water. And so, I apologize in advance. But normally you'd see that there'd be some sort of minimum take requirements. So, like a guarantee for WaterNSW year-on-year that Sydney Water would take a minimum volume, and that minimum volume requirement would give you some level of revenue certainty. And you may already have that in place. Sorry I don't know, so.

**Andrew George (WaterNSW):** Yeah, unless Ronan or Fiona can provide more clarity on this matter, I don't believe it's quite constructed the way you're articulating Sharon. In the previous price period, this was a lot simpler. It was linked, so, the introduction of the desal plan was linked to storage levels. So, and when that operated, we and as it does now, we get cost recovery, for when the desal works, but that's just looking at it through a drought lens. So, if you like, that minimum take you're referring to in a quasi-state, I guess, is implied, based on the long-term forecast of Sydney Water. However, and with the high fixed charge that we get in Sydney relative to rural valleys. That is true, however, with the more dynamic nature of the use of the Desal plant under the current regulatory environment that has introduced a lot of revenue volatility risk that wasn't contemplated when the determination was set. I can see Joe's wanting to add a comment, though.

**Joe Pizzinga (WaterNSW):** Sorry, partly to answer the question. It's worthwhile noting the Sydney Water tariff is already 80% fixed. So, there's already a locking minimum, if you like in any case. I guess the question is, and we're not going to solve it today, is the regulatory risk around having 5-year regulatory reviews and how that plays out with cost of debt, operating costs, capital programs, and how that would be entertained in the longer-term supply agreement. So not dismissing the concept but I think there are elements of regulatory risk and pricing risk that we'd also need to consider in coming up with a longer-term contract, if you like.

**Andrew Nicholls (IPART):** Okay.



**Sharon Henrick (IPART):** Thank you, Andrew and Joe. I believe I understand. But of course, as you know, there are other regulated industries in Australia who have fixed, you know, these very high fixed costs, which I think Andrew correctly described them as kind of typical for utility, and they're even typical for Qantas.

**Joe Pizzinga (WaterNSW):** Yeah. I think what I'd say at the moment is, we've balanced that risk between customers and WaterNSW by having that and Sydney Water, if you like, by having that 80% fixed minimum, if you like. But there are other mechanisms. I think you're right, and you know one we're probably not going to solve this afternoon.

**Sharon Henrick (IPART):** Thanks very much for your answers. But I just was curious about how active the consideration has been into exploring options that you know suit WaterNSW other than a revenue cap with the small 2% side constraint on it. You don't have to answer that.

**Andrew Nicholls (IPART):** But great. Thank you, Sharon, and everyone. There are two questions from Lynda in the in the chat. The first one is, I think, a question to Andrew George. Did she hear right? That land tax is now being applied to land that hadn't been charged? I'm getting a nod.

**Andrew George (WaterNSW):** Yes, that that's correct.

**Andrew Nicholls (IPART):** That's correct. Okay, thank you. And the second question's obviously a topical question around PFAS. It's probably a question for both water entities in relation to any provisioning in in these proposals. Both proposals I'll go to, in fact, so I might go to Andrew, and then maybe Dean, or whoever might be here from Sydney Water.

**Andrew George (WaterNSW):** Yeah, sure. So, in, certainly from our perspective, no, there's no explicit provision in the pricing proposal for PFAS. To the extent that we have expenditure at the moment what we've identified in the Blue Mountains, that is the cost we're absorbing. We'll consider insurance opportunities there for cost recovery and other mechanisms. So, it's a live discussion at the moment, but not in the, not in our pricing proposal. At the moment, no.

**Andrew Nicholls (IPART):** And Sydney Water.

**Dean Page (Sydney Water Corporation):** Yes, yes, on the line, Andrew. Yes, we, in reference to and for us it's about the treated water leaving our plants being distributed to customers and thinking about the new guidelines, Australian drinking water guidelines, that have just been put out for consultation that have lowered the allowable level of PFAS in drinking water. We're confident that 8 of our 9 systems are already meeting those lower limits. And in our program, we have an upgrade at the Cascades plant that will at this stage didn't contemplate the provisions to meet that guideline, but we would undertake those works as part of that upgrade and, in fact, are looking at a short term, modest cost solution to be able to get to those levels in the short term.

**Andrew Nicholls (IPART):** Thanks, Dean. I'll go to Carmel. And then, Lynda, I know, Lynda. You've asked a couple of supplemenatries there, but I might go to Carmel. I think your hand was up first.



**Carmel Donnelly (IPART):** Thanks. I just wanted to make a comment about what the tribunal and IPART are doing in the space of PFAS. Certainly, very aware that the National Health and Medical Research Council has commenced consultation on reduced levels. We're watching that very closely. We have strong co-regulator relationships with both Health and EPA, who are important regulators in this space of the PFAS types of chemicals and will, although the National Health and Medical Research Council is proposing to make a decision, I understand around April next year, we will stay as close as we can to this process and consider it. We also advise the government on operating licenses for the water authorities, and they do need to meet Australian Drinking Water Guidelines. So, we know that NSW Health from that perspective, and then EPA from environmental management, would be giving advice. depending on where the Guidelines land, and we will take that into account in all of our functions as well. So, there's a whole process that would be occurring over coming months that IPART will remain quite engaged with, and although we don't have the answers now, the pathway through it is something that we'd be working quite closely and as swiftly as we can on.

**Andrew Nicholls (IPART):** Right. Thanks, Carmel. Lynda, you've asked a very pertinent supplementary question about land tax, and another question. So, I'll throw to you.

**Lynda:** Yes, I mean questions there about why the land tax, not everybody cops land tax. The other one is, I'm concerned about contamination in WaterNSW assets, and you know, and what they're doing to ensure that future contamination, and of course, with the PFAS we've got Federal and State reviews, inquiries on the moment. And a lot more information will come out. A lot of work that Carrie Felder was doing. I mean, we were involved in one case locally and it was the resistance that we saw at the time to admit to problems that was my concern, and to also do the adequate testing. So, I mean, I'm concerned what I'm hearing about WaterNSW sort are of being caught short, having to find, you know, perhaps losing capable staff that are going to be available. you know, to contest big developments, for instance, to actually monitor, and I've brought in the Botany Aquifer. I mean, we're talking about a very contaminated aquifer, the biggest spill in the southern hemisphere, and what they, their capacity, then, is decreased. That's what I see once they get assets pulled from them, you know, staff assets, so I don't know what the government's up to putting land tax on them. But anyway, I have sort of very general concerns.

**Andrew Nicholls (IPART):** Thanks, Lynda. I think I'm hearing a triple, barrelled question, one about land tax, one about the current inquiries into water quality, but also questions around capacity and capabilities. So, Andrew, is that putting you on the spot, or someone from your team to maybe go through those.

**Andrew George (WaterNSW):** Oh, I'll have a crack and then I might through to Joe for the land tax question.

**Andrew Nicholls (IPART):** Okay. Brilliant.

**Andrew George (WaterNSW):** We'll give you some time to think, Joe. The, look in regards to the Orica example, for example, not really in our jurisdiction, but appreciate that that's a related contamination matter. Our responsibility is for the catchment and the protection of the drinking water catchments in Sydney, principally behind the dams as laid out in our regulatory instruments. And obviously we take that very seriously, and we work very closely with a range of regulators, including the EPA and NSW Health in particular.

And so yes, it is a very dynamic environment at the moment, but we're all very focused and committed to ensuring that we can continue to protect human health and the population at large. So we're working very closely together. We're working very hard. And you know, we're certainly not shying away from our obligations on what we need to do to improve things there. It's very difficult to foreshadow what that might be required as part of this pricing proposal, which has a very structured approach, as it should to setting prices. But we'll work through that with both IPART and the NSW Government. I think when it comes to land tax, though I might throw to Joe, who will provide a much more sensible answer, I suspect. Thanks, Joe.

**Joe Pizzinga (WaterNSW):** Yeah, thanks, Andrew. The land tax for Greater Sydney and, is primarily due to two things, that there has been an increase in the land holdings, but there's also, as many of you might be aware, since 2021, there's been a large increase in land values, so the value of the land's increased, hence the land tax outcomes increase. With regards to the second question, a number of the other agencies in their supporting Acts actually have an exemption for land tax. Under the WaterNSW Act there is, there's no exemption for land tax. So, you know, as a result, we are caught up in that land tax obligation. So, to answer your question as to why versus, you know, Landcom, for example, Landcom and their Act has a particular carve out, so we don't have that in our Act. Nor does the Land Tax Act exclude WaterNSW.

**Andrew Nicholls (IPART):** Great. Thank you very much for those responses and thank you, Lynda, for that. There's a question that's been received via text to our team, and I'll just read it out, and it says, 'what are the next steps by Sydney Water to ensure drinking water is available during drought times,' and I think this might be a question, in fact, for WaterNSW initially, but also Sydney Water in relation to preparation for drought. Perhaps, Andrew, could I go to you first?

**Andrew George (WaterNSW):** Happy to kick it off. Generally, Sydney Water and WaterNSW are required to develop a Greater Sydney Drought Response Plan and provide that to the minister, which we have done. We've done that a couple of years ago, and that does step through the actions and interventions that we would progressively take in times of drought as dams deplete. I'm pretty sure that that Greater Sydney Drought Response Plan is publicly available, so, if we can find those details, we can certainly share that information. Happy to hand over to my Sydney Water colleagues. If they have anything to add.

**Dean Page (Sydney Water Corporation):** No, I think I concur with Andrew there. Yeah, we work very closely with WaterNSW. And obviously note that the desalination plant is, is there, and got capacity available on our sort of business as usual use in the event that it's required in those drought situations.

**Andrew Nicholls (IPART):** Right, thanks to you both for that, for that response. All right, any other questions or comments? I might jump in with one then myself. So, when I was reading the proposal, I was just a bit curious about the E-flows project. And at first, I wasn't sure if it was a digital project, but then I figured out, I think the E was environmental. But is this an operational sort of project or is it more a regulatory compliance project? I just wonder if you could elaborate a little bit more.

**Andrew George (WaterNSW):** Yeah, thanks, Andrew. It's a policy driven project. So, it has its genesis, I think, in the 2010 Metropolitan Water Plan that the government developed. It was developed at the time when Sydney was in the Millennium Drought, and there were environmental risk factors with the Hawkesbury-Nepean, due to very low flows, and so there were times of increased noxious weed in the river and the like. That policy position of the government has been sustained through a number of iterations of the Metropolitan Water Plan, and now is referenced in the current Greater Sydney Water Strategy. So, the department are the lead agency on this policy project, and they have been the ones engaging with the community and progressed this policy project all the way through to a strategic business case.

It is now at the point where the department have shored up government and community support for this policy initiative, and have now asked WaterNSW, as the asset owner and operator, to progress with the capital works. Hence, we're now at this point where it's featuring in our pricing submission.

**Andrew Nicholls (IPART):** Okay. Great. Thank you, Andrew. Jarrah has asked, I think, a very important question for WaterNSW. It's really about how you've gone about the allocation of overheads having regard to your rural and regional business and your Sydney business and offer to take it offline, and it looks like, I think, Jarrah, you've been having a look at that, Jarrah. Did you want to speak to this question first before we throw it to WaterNSW? I think it's a very pertinent question.

**Jarrah O'Shea (RMCG):** Yeah, for sure and for full transparency. We've been engaged by Murray Irrigation Limited and obviously WaterNSW serves both Sydney and regional areas. But in relation to the Greater Sydney proposal, the just looking through Appendix 7, which is the cost allocation manual, the significant increase in Capex within greater Sydney. My understanding would be that that would probably lead to a higher share of overheads going to Sydney compared to rural areas. But it's just very tricky to tell, because, yeah, we don't have access to the Building Block models, and that would certainly add transparency if they were to be provided. Look, obviously, understand the need for Capex in various circumstances, and the points that Stuart and others have raised absolutely valid. But yeah, more broadly, this is in relation to the allocation of those costs to Sydney and to rural areas. And has there been a change in those proportions because of the Greater Sydney Capex?

**Andrew George (WaterNSW):** Might throw to my CFO, Joe Pizzinga to answer that one for you, Jarrah.

**Joe Pizzinga (WaterNSW):** Yeah, thanks, Jarrah. You're right. So, the allocation driver for us is Totex. So, to the extent expenditures in one segment versus another, the overhead flows there. So, there's been no change to our overhead allocation approach between this determination and the previous determination. So, to the extent, there is a larger capital program, both in rural valleys and in Greater Sydney, it absorbs more of the overhead. That's sitting in in Opex. You're exactly right.

So, you know, for example, if those policy projects for Sydney Water were not to proceed, the overheads that have currently been allocated to those projects would flow back to the Opex side of the ledger, would have to be allocated to Greater Sydney and rural valleys. So, you know the capital program whilst it has a return on and of outcome, it does help with regards to the operating costs, which are recovered in, you know, year one, if you like.

**Jarrah O'Shea (RMCG):** Yeah. Look, understand. Yeah, look certainly understand the sort of interaction between Capex, if it doesn't lead to an asset, then ultimately, in a statutory sense, it becomes Opex. But my question was probably more into relation of the fact that if the approach hasn't changed, then I would suspect the cost, the percentages would have changed, because linking it to Totex, that there should therefore be potentially a higher share of costs to Sydney compared to the rural valleys and yeah, look, provision of your building block models would help users understand that.

**Joe Pizzinga (WaterNSW):** I don't have the maths on me. But you're right. Given the higher Capex program for Greater Sydney versus rural valleys, Greater Sydney is absorbing more of that overhead. I don't have the numbers on me, Jarrah, but you're right.

**Andrew Nicholls (IPART):** Okay, thank you. All right. Any other questions or comments it could be on WaterNSW or Sydney Waters. Previous proposal. Obviously, when you look at the combined effect, it's a significant increase. And we're very interested to hear public views on, on, on that and the trade-off against all the proposals that go with that? Are there any comments or questions at this stage? If not at this point, we might move to wrap up the public hearing, with our thanks. And I will pass you now to our tribunal chair, Carmel Donnelly, to make some closing remarks.

## 4 Closing Remarks

**Carmel Donnelly (IPART):** Thanks, Andrew. Look, I would, on behalf of IPART, like to thank everybody who's presented and participated today for making the time for sharing your views, and particularly, you know, those people who've asked some very important questions. We will consider all of that, including thinking about questions that you've asked that we might drill into in more detail as we go through our assessment. We certainly consider everything that's been said today as we make our draft decisions. And we're also interested, by the way, in any feedback that you can give us about how we can improve online public hearings. We do like to do them online in areas where we know people would otherwise need to travel, and it means it's that there's a way that people can engage without needing to travel.

As we've mentioned, we are accepting submissions, and we very much welcome submissions. We're accepting submissions up until Monday, 9th of December. The next steps after that is, we will continue our assessment, our comprehensive review, and consider all the submissions and also the analysis that we'll undertake. And we will plan to release draft report and draft decisions in March next year. We'll also give an opportunity for consultation, for submissions and public hearing on that draft report. And then our final reports and determinations will be released in June next year, so we will have more opportunity for consultation.

I will, in closing, just say how useful this has been, and I hope it has been useful for participants as well as for IPART. If you would like to talk to someone at IPART, if you have further information to share or questions, you're most welcome to get in touch with us. The contact details are on this slide you can see now. They're also on our website. And if you would like to talk to someone at IPART, please do get in touch.

I should also mention that the slides from today, the agenda and the transcript will be available on our website in a few days. And we will also provide a link to the recording of today's proceedings.

So that said, thank you very much, everyone, and have a good afternoon.

**Andrew Nicholls (IPART):** Thank you, everyone. Have a good day.

**Andrew George (WaterNSW):** Thank you.

**Michael Martinson (WaterNSW):** Thanks. Everyone.