

# WaterNSW Pricing Proposal for Rural Valleys 2025-30

**14 November 2024**

# Agenda

## Topics

- 1 About WaterNSW
- 2 Our proposal at a glance
- 3 Customer engagement and the 3Cs
- 4 Expenditure summary – what’s driving our costs and revenue requirement
- 5 Options to minimise costs for customers

# About WaterNSW

**We're the people taking care of the state's water at the source – capturing, storing, delivering.**



## Our story

### We're vital



We use our expertise to carefully capture and store our most vital natural resource. We then supply that water ready for distribution, for the environment, agriculture, industry and the community.

- ✓ We manage 41 major dams and hundreds of waterways across the state, delivering two thirds of all water used in NSW
- ✓ We're at the source of the state's water, we're not at the taps
- ✓ WaterNSW is a State-Owned Corporation and one of the main government agencies tasked with managing water in NSW
- ✓ We follow the rules, we don't make the rules
- ✓ We're also the source of vital information, like river and dam storage levels

## What we do

### We're expert operators



We operate the state's dams like Warragamba and Burrendong using our knowledge of nature, science and engineering.

## Our why

### We're proud custodians



We are driven to use our knowledge, passion and expertise to manage water responsibly and support the resilience of NSW.

## How we work

### We're local partners



We live and work side-by-side with our customers and communities across NSW, and our work with First Nations people is important to us.

# Our role in the water sector

## WaterNSW implements the rules:



- Supply of the state's water from the source
- Licensing and approvals for most customers
- Water allocation and licence trades
- Water resource information
- Water monitoring services on behalf of other agencies such as DCCEEW and the Bureau of Meteorology
- Operation of the state's river systems



## Natural Resources Access Regulator (NRAR) enforces the rules:



- Compliance and enforcement of regulatory framework for water
- Management rules



## The Department (DCCEEW) makes the rules:



- Planning and policy development
- Establishing regulatory frameworks for regional and metropolitan water in NSW
- Setting of mandatory licensing conditions resulting from water sharing plans

# Setting the scene

We are seeking a revenue allowance to ensure we can **remain financially sustainable, meet our customers' needs, comply with regulatory obligations** and **operate within NSW Treasury credit metrics** and **debt parameters**.

This will be challenging given:



## Significant cost increases for WaterNSW.

**Inflation** and **interest rates** driving up costs

This is despite:

- Small capital program
- Small (declining) customer base spread across 13 valleys
- Most rural valleys operate at a loss
- Cost transformation program already stripped out 10% of our costs + \$133m over next pricing period.



## Large price rises unaffordable for customers.

- Customer affordability top of mind for WaterNSW
- Investments driven by outcomes valued by customers
- Customer input into level of investment for projects
- Customers want Government to pick up a share of costs for public services



## Pressure for IPART to set prices below what's needed.

- Setting prices below what's needed to recover prudent and efficient costs.

# Setting the scene

**Economic conditions and regulation driving costs up - 64% of our increase** outside our control

- Seeking only **lowest sustainable costs, no more, no less**, to keep the system running

## WaterNSW has cut costs

- Already **stripped out 10% of costs**
- **Cutting an additional \$133 million in costs over the next five years**
- **Capex program \$860 million lower** by deferring costs and accepting more risk

## Our challenges

- WaterNSW revenue **varies significantly based on water deliveries**
- **25+ new** regulatory and government **obligations** - **40% of our increased opex**
- **WaterNSW's costs do not vary** materially with water deliveries or drought or floods
- Managing **financial and operational risks** re climate, new regulatory obligations and volume variations under a fixed price cap

## Proposing solutions

- Investing in **outcomes our customers want** – largest consultation we've ever undertaken
- **Alternate scenarios** to offset cost increases – reduce customers bills
- **Investing in our assets** for future generations
- Long-term plan for **a more sustainable future** – downward pressure on customer costs

# Meeting IPART's 3Cs 'Standard' grading



## Customer

- Customer-centric proposal.
- Customers influenced business outcomes.
- Conversations led by WaterNSW Executives.
- Exploring alternative funding scenarios to reduce costs for customers.
- Customers want Government to share costs.



## Costs

- Deferred \$860 million in capital projects
- Proposed \$133 million reduction in operating expenditure including a 1% per year cumulative efficiency target.



## Credibility

- Assessment of our ability to deliver our capital program
- Transparency about performance
- Cost transformation journey to put downward pressure on costs we can control.

# Our Rural Valleys proposal at a glance

## Our engagement



- Our biggest consultation to date spanning **20 months**.
- Improved the **way we listen and respond** to customers.
- Customers & stakeholders **at the heart** of our decision making.
- Feedback shaped our proposal.
- **22 investment proposals** considered by participants.
- Engaged with **2,500 people** & reached out to **41,000 customers**.
- **2,382 hours of discussion** on pricing through our Customer Advisory Groups and Water Working Groups.

## What we heard



Customers told us what **outcomes** we should target for 2025-30:

1. Maintaining **downward pressure on costs**
2. Providing **secure, reliable water delivery**
3. Being **open and transparent** about charges & expenditure
4. Driving **sustainable water and land management**
5. Providing **easy access to data and information**
6. Providing **good customer experiences**

## How we will deliver



Continue to **invest in renewing or replacing ageing infrastructure** and becoming a more **digitally enhanced business**.

For Rural Valleys, we will invest close to **\$1 billion** over 5 years:

- **\$553 million** in our 2025-30 **capital program**.
- **\$437 million** in our 2025-30 **operating program**.

Commit to a cumulative efficiency target of **1% of opex per year**.

## Impact on prices

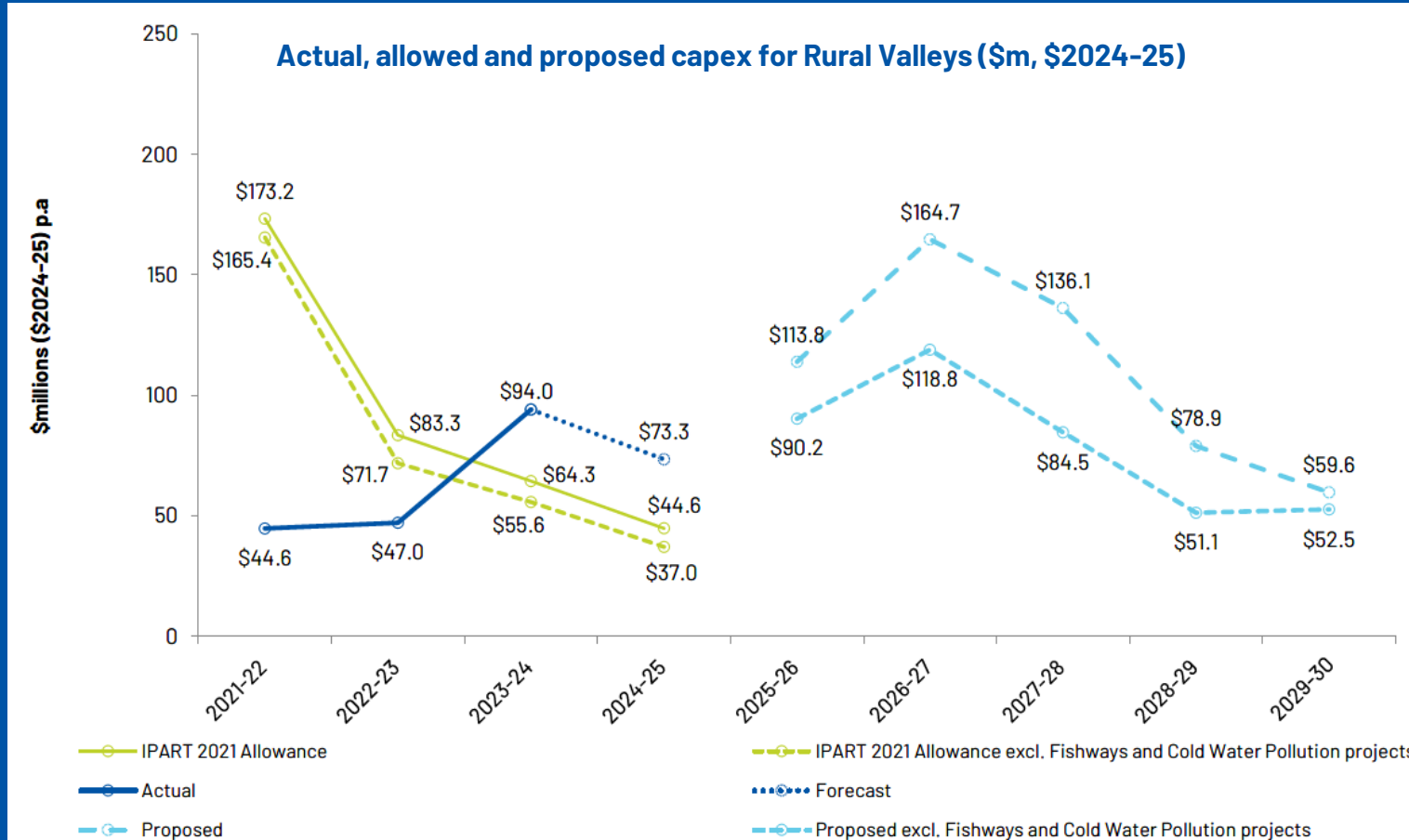


- **53% increase** (excl. inflation) in the annual revenue requirement to provide regulated services. **64%** of the increase driven by factors we can't control.
- We **reduced costs within our control**.
- Identified alternative scenarios to minimise pricing impacts.
- We **propose a revenue cap** and to **keep fixed charges at the current proportion** for most valleys.
- We have a **hardship program** to help customers in need.



# The drivers of our proposed expenditure

# Rural Valleys capital expenditure



Proposed capital expenditure over five years **\$553 million** – 21% increase from 2021 determination.

When excluding large regulatory driven projects, the investment is in line with the current period, with **\$860m deferred** to keep prices down.

Average annual forecast capex **4% lower** than the annual average of the 2021 determination.



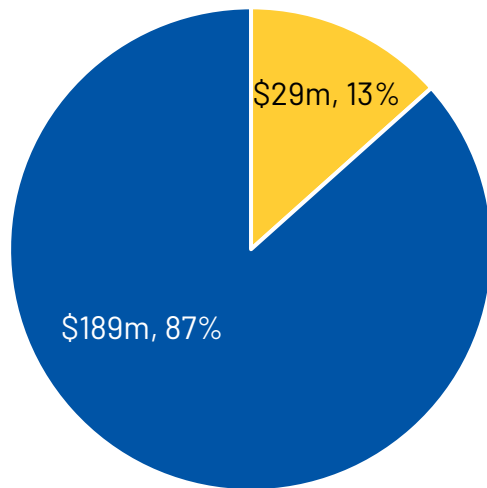
**\$224 million** – 40% of our total proposed Rural Valleys capital program is regulation driven.

# Capital program influenced by regulatory obligations

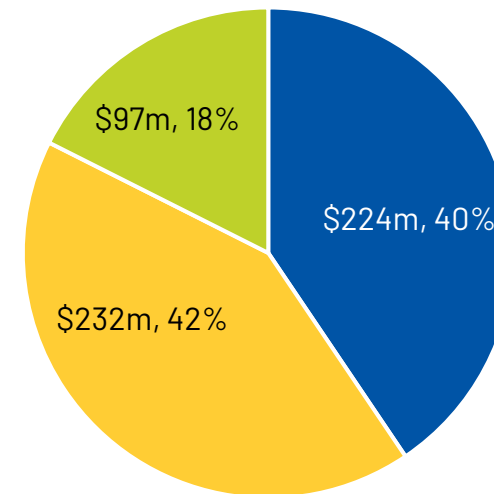
Investment in maintaining or upgrading our ageing assets – only 13% of our top six rural capital projects. Changing community or regulatory expectations accounts for 87% of these investments.

Across our entire rural bulk water capital program, investment in maintaining or upgrading our ageing assets is 42% of the total program, while changing community or regulatory expectations is 40% and operations and support is 17%.

Top 6 Program/Project Expenditure by Driver - Rural Valleys



Total Expenditure by Driver - Rural Valleys



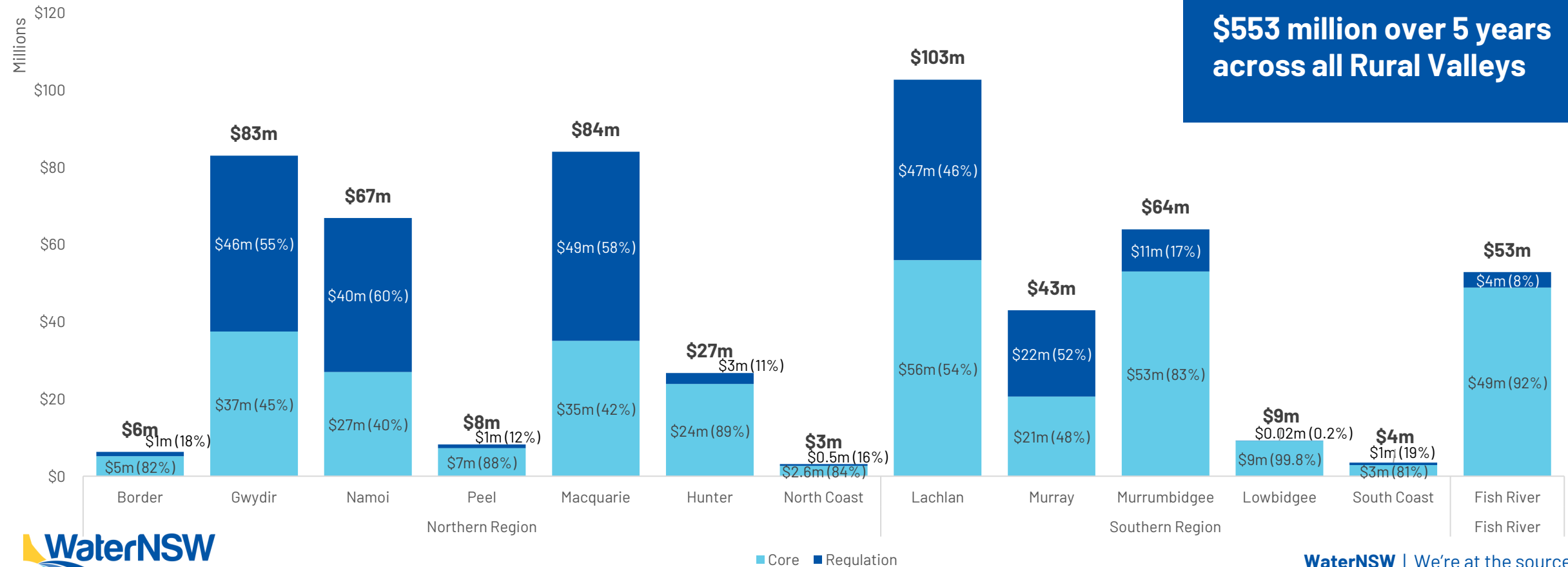
- Management of Ageing Assets
- Changing Community or Regulatory Expectations
- Changing Community or Regulatory Expectations
- Management of Ageing Assets
- Operations and support

# Proposed capital expenditure by valley

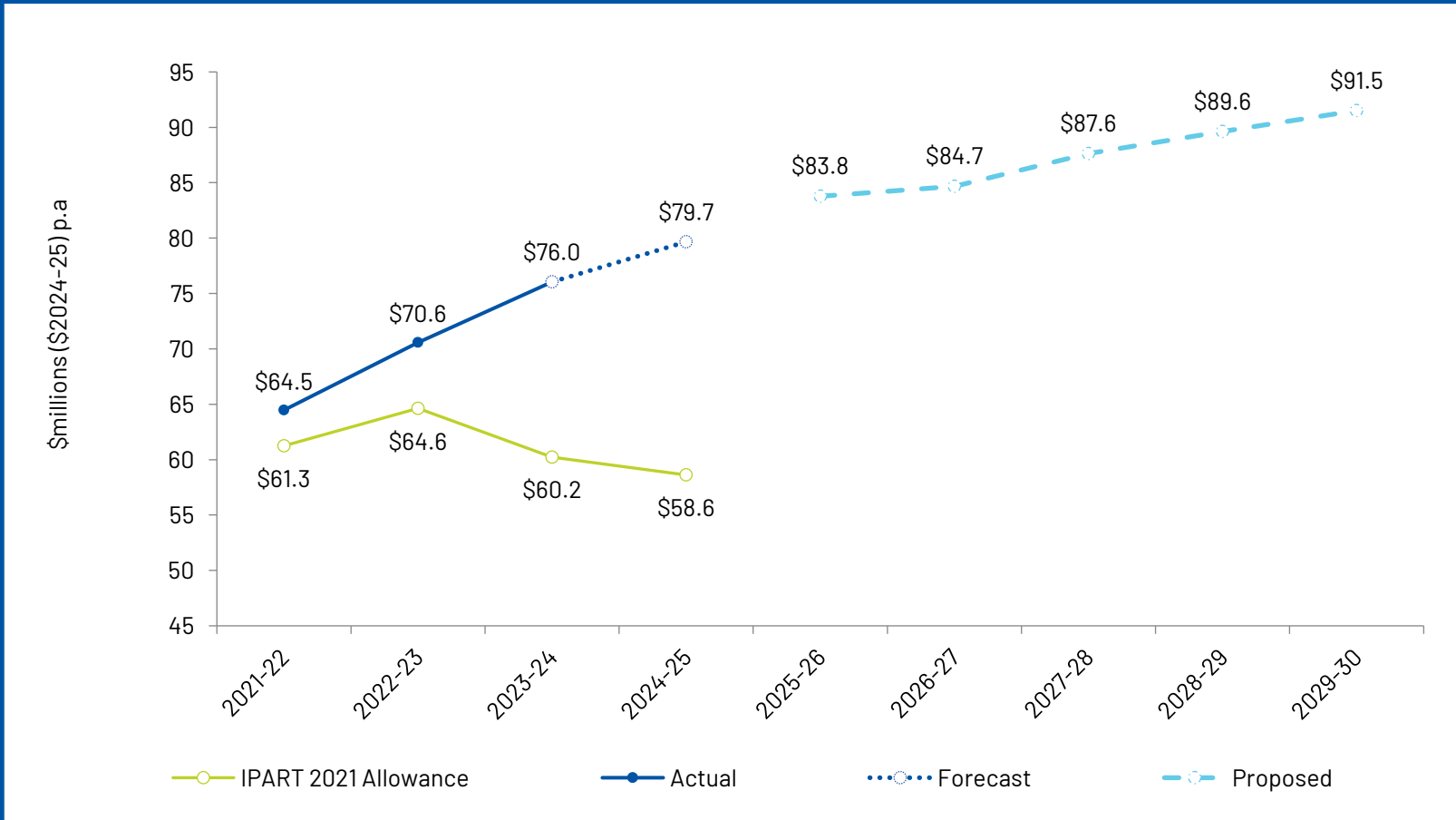
Proposed capital expenditure 2025-30  
(\$millions, \$2024-25)



**\$553 million over 5 years  
across all Rural Valleys**



# Rural Valleys operating expenditure



Proposed opex **\$437 million** over five years.

Proposed Rural Valley annual opex is **10% higher** than our forecast for 2024-25.

**25+ new** regulatory and government obligations - **40% of our increased opex.**

Reflects:

- a real increase in prices and output,
- step changes,
- non-controllable costs,
- offset by large efficiency savings.

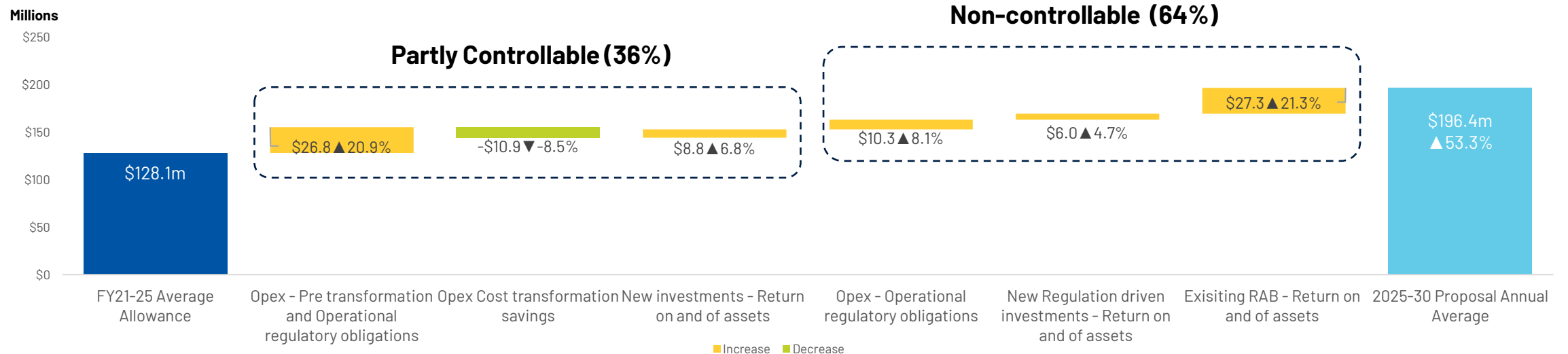
# Rural Valleys revenue requirement

Our proposed revenue requirement is **\$982 million over five years** - 53% higher than 2021

Key drivers of the \$68 million average annual increase include:

- **Return on capital** ► **\$35 million (+51%)** due to a higher post-tax real **WACC (4.3% vs 1.8%** in the 2021 determination).
- **Opex** ► **\$26 million (+38%)** with **\$10 million (40%)** in response to both new and existing asset and operational regulatory obligations.
- **Return of capital** ► **\$7 million (+10%)** increase in depreciation due to higher technology and digital capex with a shorter asset life.
- The interest rates we pay have increased from 2.2% in FY20 to 5.5% today

## Average annual revenue requirement in millions (\$2024-25)



# Form of control and price structures

**Challenge** - our costs are **95% fixed** but most valleys only pay **40% fixed** charges. This creates volume risk when actual water usage differs from regulatory forecasts. This is not good for customers or WaterNSW.

**Solution** - Supported by customer feedback, a **revenue cap** for nine valleys with a **5% pricing side constraint**. Environmental water holders move to **fully fixed charges**. Lachlan Valley to **80% fixed charges**.

Discussed over 18-months with our Customer Advisory Groups, large customers and environmental water holders.

Discussed **two broad options** with customers for managing volume risk:

1. Keep the current form of control (price cap) with higher fixed charges
2. Move to a revenue cap and maintain the fixed portion of charges for most customers. A side constraint will help manage pricing volatility, based on customer feedback

Our engagement identified that:

- **The status quo is not sustainable**
- **66%** think there is a problem with how prices are currently set
- **86%** of those surveyed are in favour of a revenue cap with a side constraint
- There is some interest in exploring a **regional approach** to pricing

# Options to minimise customer bills

- Proposing **alternative scenarios**
- Deferring large policy-driven projects
- Addressing competing priorities on WaterNSW's increasing costs
- Reducing cost pressure and assisting customer affordability
- No stone unturned to find ways to reduce the cost burden on customers
- Each scenario **caps price rises to 15% per year**, until a valley reaches full cost recovery
- Setting a price cap at 10% per year will negatively impact our credit rating by 2029-30.
- Reducing expenditure below required levels is not in customers' long-term interests.

## What we're seeking to balance



**Significant cost increases for WaterNSW**



**Large price rises unaffordable for customers**



**Pressure for IPART to set prices below what's needed**



# Conclusion

- Costs have increased, leading to customer affordability concerns
- Left no stone unturned to reduce costs and put forward alternative scenarios to minimise impacts on prices
- Balancing things outside our control with what will genuinely add value to customers
- Complying bid to meet obligations, including some items our customers sought (minimal cost)
- Engaging with Government on our prudent and efficient costs
- We put forward three alternate scenarios – each with a 15% per year price cap (plus inflation)
  - Extend asset life and reduce user shares
  - Extend asset life and remove major policy projects
  - Regional pricing
- Not enough scope in business to cut these increases out. We'd have to halve the business – and a 10% price cap would impact NSW state credit rating



**Thank you**