

Pricing Proposal to the Independent Pricing and Regulatory Tribunal Regulated Prices for Greater Sydney Summary of proposal



Introduction

WaterNSW's prices and revenue for monopoly services are regulated by the Independent Regulatory and Pricing Tribunal (IPART). IPART is an independent NSW Government agency that reviews prices for a range of services in NSW which include water, gas and public transport. Prices are generally reviewed every four years.

IPART will shortly commence its process for the determination of WaterNSW's prices for bulk water services in Greater Sydney. As part of this process, IPART requests that WaterNSW provides it with a pricing proposal that publicly explains, justifies and documents its proposed prices and expenditures required to provide bulk water services in Greater Sydney.

This document provides a high-level summary of WaterNSW's pricing proposal for bulk water services in Greater Sydney. For more detail, please refer to WaterNSW's pricing proposal.

Who is WaterNSW?

WaterNSW is a State-owned Corporation formed on 1 January 2015 under the *Water NSW Act 2014* (NSW). We are Australia's biggest water supplier.

We deliver water from our 42 large dams, pipelines and the State's rivers and ensure that the water we supply is reliable and, where that water is to be used by end user customers for drinking, that it is safe.

We also develop water infrastructure solutions to enhance water supply and manage the reliability of water delivery by planning, developing, operating and maintaining water infrastructure.

Greater Sydney

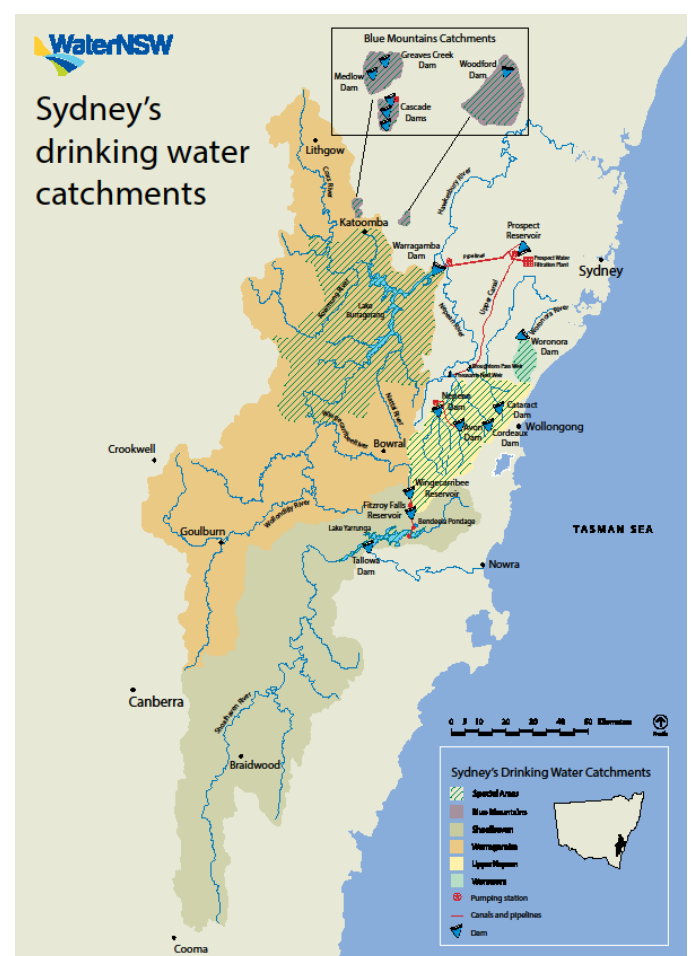
In the Greater Sydney area, our role is to protect 16,000 square kilometres of drinking water catchments, and renew, develop, and maintain dams, pipelines and other infrastructure that are used to supply customers with quality raw water. WaterNSW supplies raw water to urban water utilities for treatment and then consumption by Sydney, Illawarra, Blue Mountains, Southern Highlands and Shoalhaven communities.

Our customers include Sydney Water, Wingecarribee Shire Council, Shoalhaven City Council and Goulburn-Mulwaree Council. WaterNSW also provides raw and

unfiltered water supply to approximately sixty other smaller customers. The area of our Greater Sydney operations is shown in Figure 1 below.

WaterNSW works closely with NSW Government agencies and State Owned Corporations including the NSW Department of Planning & Environment and Sydney Water to manage and plan for Sydney's long-term supply and demand.

Figure 1 Water NSW Greater Sydney operations



At the time of lodging this proposal, drought conditions continue throughout the Sydney catchments and storage inflows remain low as we have been receiving near zero rainfall.

We are proposing to invest in drought-related planning works in 2019-20 and we are assessing several drought supply options in close collaboration with Sydney Water and the NSW Government to secure Sydney's water supply in deep drought – should conditions worsen.

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We are committed to doing all we can to ensure a safe and secure water supply during drought, with storage levels depleting at rates no seen since Work War II and the Millennium droughts.

How long will the regulatory period be?

WaterNSW is proposing a four-year regulatory period, covering the period between 1 July 2020 to 30 June 2024.

Who does this pricing proposal cover?

The customers who are affected by this pricing proposal include:

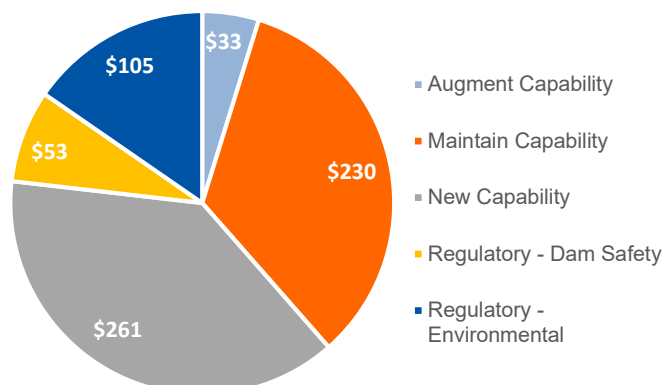
- Sydney Water
- three Council customers - Wingecarribee Council, Goulburn-Mulwaree Council and Shoalhaven Council
- approximately sixty raw water and unfiltered water customers.

What are the main features of our proposal?

Capital expenditure

We are proposing to invest \$682 million (\$2019-20) in capital works over the four-year determination to ensure our assets continue to provide reliable service and secure supply to meet Sydney's growing population.

Figure 2 Water NSW proposed capital expenditure (\$m, \$2019-20)



Our proposed capital program includes projects to improve the resilience of our network when facing pressures associated with drought, to renew assets and

to maintain downstream river health. The largest proposed investment is for deep water access at Avon Dam at an estimated cost of \$236 million – the project would assist in providing drought resilience and address the supply risk to the Illawarra region by enabling access to the deep inaccessible water in the reservoir.

Operating expenditure

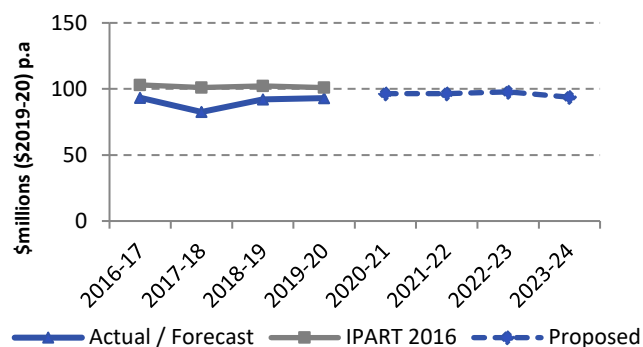
Through effective management of our operating expenditures, we expect to deliver savings in each year of the current 2016-20 Determination period.

For the 2020-24 Determination period, we propose operating expenditures of \$384 million (\$2019-20), which represents a \$23 million, or 6%, decrease from IPART's allowances in the 2016 Determination.

The lower forecast costs are a result of a focus on expenditure management and improving our efficiency.

This proposal represents WaterNSW's commitment to contain and continue to reduce operating expenditure throughout the next determination period.

Figure 3 Water NSW proposed operating expenditure (\$m, \$2019-20)



Revenue Requirement

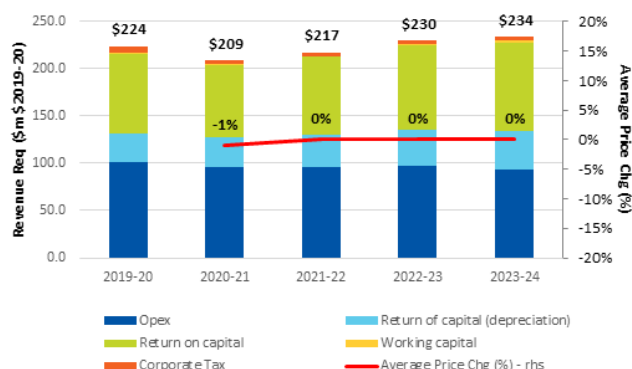
Based on IPART's 'building block' framework, WaterNSW is proposing a total revenue requirement of \$890 million (\$2019-20) for the four years of the 2020 Determination period.

This results in a proposed average price decrease over the period of 1% when excluding the impact of inflation.

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Figure 4 Water NSW proposed revenue requirement (\$m, \$2019-20)



Importantly, our proposed lower prices do not represent a reduction in service quality.

WaterNSW remains committed to providing customers with uninterrupted supply of the highest possible quality water. We will continue to promote improvements in water quality standards and contribute to the protection of public health and the environment through enhanced catchment protection practices in Sydney's drinking water catchments and improve customer access to online water information.

Managing uncertainty

We consider that a well-functioning regulatory framework needs to ensure a reasonable sharing of risks so that a business can recover its efficient costs.

An important element of the framework is the inclusion of regulatory mechanisms that allow for significant unforeseen costs that are triggered by uncertain events during the regulatory period.

We are proposing a four-year regulatory period with an expanded cost pass through framework. We also propose a minor variation to the current approach to pricing for Shoalhaven transfers and the introduction of a demand volatility adjustment mechanism as a risk-management tool to address significant volume variations from forecasts.

While we have included minor funding for planning works for drought measures in our proposal, we have provided a framework which we hope IPART will consider for funding the resulting options.

What happens next?

WaterNSW lodged its pricing proposal with IPART on 1 July 2019. The proposal will be available publicly on IPART's website.

The following table provides a high-level timetable of the review process as indicated to WaterNSW by IPART.

Activity	Time
Water NSW's pricing proposal due	1 July 2019
IPART releases Issues Paper	September 2019
Submissions in response to Issues Paper due	October 2019
Public Hearing	November 2019
IPART releases Draft Report and Determination	March 2020
Submissions in response to the Draft Report due	April 2020
IPART releases Final Report and Determination	June 2020