Attachment 8

Base-Trend-Step operating expenditure

30 September 2024

Version 1.2

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1 Introduction

WaterNSW's analysis for our current period operating expenditure forecasts for the 2025 Determination period is provided according to the Base-Trend-Step (BTS) approach required by IPART under the 3Cs framework. This chapter covers the Greater Sydney, Rural Valleys and WAMC business segments.

When developing our Base-Trend-Step-based forecasts, consideration is given to:

- the appropriate allocation of shared costs categories (for example, corporate costs)
- the efficient base year (net of adjustments and new obligations)
- material operating expenditure risks.

2 Overarching Summary

We have undergone significant transformation in our **people and processes** necessary to better serve our customers, meet **regulatory requirements** and manage our costs efficiently in the face of significant cost **inflation pressures**.

The below summarises at a high level this transformation.

Organisation change

Central to IPART's 3Cs framework WaterNSW has undergone a period of organisational change since 2022 with a new operating model and workforce plan. This change ensures we have the skills, capability, and resources to:

- Ensure compliance within WaterNSW to new and existing regulations
- Implement measures to mitigate risks and maintain operational integrity
- Deliver services that meet or exceed customer preferences and needs including the primary work location of senior leaders and customer facing teams
- Continuously gather and analyse customer feedback to identify areas for improvement.

This has been a cascaded change process which commenced by filling key leadership positions followed by recruiting for their direct reports. We expect 2024-2025 will be our first completed year without disruptions such as those caused by vacancies and open roles.

The new operating model resulted in an overall increase in our FTE and salary and wage expenditure. This increased labour is to provide improved service to our customers and support improved outcomes. The overall impact of these changes would have been higher if we had not implemented the deliberate reduction in non-customer facing senior roles. While roles were also added to the structure, there are corresponding cost savings associated with reduced contractor expenses and agency spend.

As outlined in the efficiency chapter, our forecast operating costs would have been significantly higher had it not been for the efficiencies delivered over the past 2 years. The largest contributor to these savings is the reduction in the number of senior leadership roles, reduced property leasing costs and reductions in contract labour.

Regulatory change

WaterNSW has a multitude of regulatory obligations it must comply with to ensure it operates safely, efficiently, and sustainably, while protecting public health, the environment, and customer interests.

IPART has recently conducted an end-of-term review of WaterNSW's Operating Licence 2022-2024, which expired on 30 June 2024. IPART recommended to the Minister a new Operating Licence for WaterNSW, which

came into effect on 1 July 2024. The new Operating Licence has several new obligations compared to the previous licence that have a substantive effect on costs, including:

- Increased scope of the water quality management system (WQMS)
- Water quality monitoring enhancements program
- Early warning system to provide advanced notification of significant changes to water flow quantity or and quality.
- Requirements to establish a data management framework.
- Expansion of both research and education requirements
- Establish a new Cooperation Protocol with Fisheries

Additionally, WaterNSW has identified a number of regulatory obligations in the upcoming determination period which will require programs of work and recurrent operating expenditure to ensure ongoing compliance. These are expanded upon more comprehensively in Attachment 22.

Inflationary pressures

Like many other organisations, the macro-economic environment has also impacted the cost structure of WaterNSW as CPI has risen by 6.1% in 2021-22, 6.0% in 2022-23 and 3.8% in 2023-24. Inflation has led to rising costs for energy, chemicals, fuel, labour, and insurance and land tax.

Over the next determination period we expect some of these cost pressures in relation to energy, fuel, chemicals to reside. However, we project the following input costs to increase above the rate of CPI from 2025-2026 onwards.

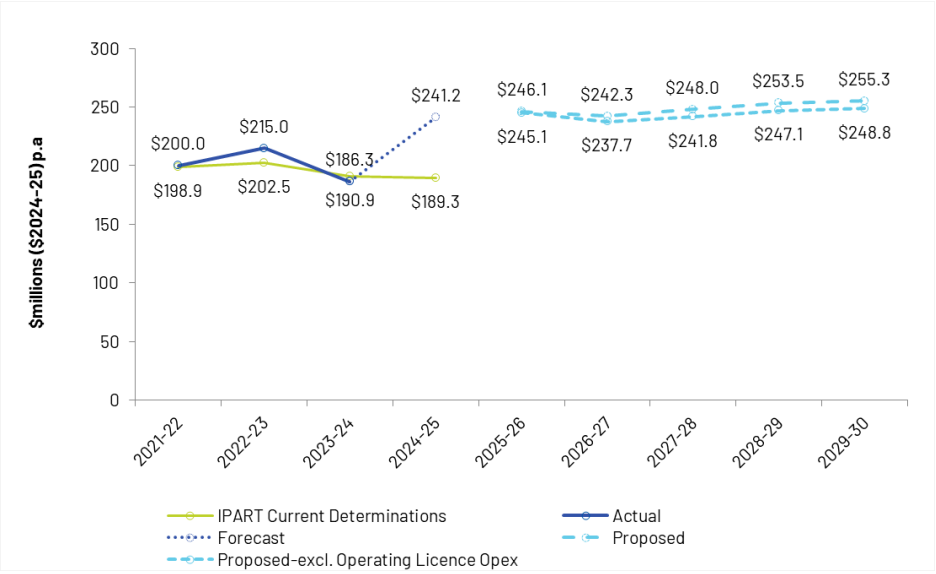
- Land taxes due to land valuations (8.37% Compound Annual Growth Rate (CAGR))
- Insurances premiums (7% CAGR)
- Labour wage costs (1.0% CAGR)
- Digital software licencing costs and cloud consumption (1.3% CAGR)

Though we intend to continue to absorb some of these cost increases through efficiencies in our operations (including procurement), and better management of risks, an estimated CPI+0.26% CAGR increase in operating expenditure is projected for each year across the upcoming pricing submission period.

Operating Expenditure Summary

WaterNSW's estimated total opex forecast for the upcoming 2025-30 determination period is $1,245 million, representing a 25.6% increase in real terms compared to our expected opex for 2020-25 as illustrated below.

Figure 1 – WaterNSW total Base Trend Step operating expenditure ($m, $2024-25)



Our WaterNSW Base-Trend-Step operating expenditure for the 2025 Determination period, which totals $1,245 million over five years, is illustrated below and discussed in the following sections.

Table 1 – WaterNSW total Base Trend Step operating expenditure ($m, $2024-25)

	2022-23 Base Year	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Base	$201.1	$201.1	$201.1	$201.1	$201.1	$201.1	$1,005.5
Base Adjustment	$33.6	$33.6	$33.6	$33.6	$33.6	$33.6	$167.8
Adjusted Base	$234.7	$234.7	$234.7	$234.7	$234.7	$234.7	$1,173.3
Trend		$1.8	$2.3	$3.3	$4.8	$5.3	$17.5
Step		$9.6	$5.3	$10.1	$14.0	$15.3	$54.3
Total Opex		**$246.1**	**$242.3**	**$248.0**	**$253.5**	**$255.3**	**$1,245.1**

3 Opex forecasting approach

3.1 Forecasting methodology

WaterNSW's proposed operating costs reflect our commitment to meeting the needs of customers in Rural Valleys, Greater Sydney, and WAMC and considers customer bill increases and step ups from current regulatory allowances.

WaterNSW has a detailed process for planning our operating costs and we use a combination of top-down and bottom-up approaches to create our forecasts, which are developed around IPART's 3Cs framework, base step trend methodology and reflects the prudent and efficient costs of meeting our objectives. The forecasts are based on existing and new cost drivers such as:

- Compliance with our regulatory obligations (new and existing) for example SOCI Act, PIPP Act, Fisheries Management Act, and new proposed cyber security legislation, Modern Slavery, incremental operating licence obligations and safety.
- Actual, known or expected cost escalation for example energy prices, licence fees, land tax and insurance premium costs
- Changes in scope or services that are a direct result of customer feedback and expectations
- New or escalated costs associated with meeting a new regulatory standard for existing services
- Prudent management of our assets to mitigate risk of asset failure or service disruption, and limiting cost impacts to customers
- Meeting our service quality standards, obligations and goals
- Using technology effectively
- New ongoing expenditure arising from newly commissioned capital items
- The appropriate allocation of shared overhead cost
- Achieved cost savings and future efficiencies to reduce costs

3.2 Cost allocation methodology

The Cost Allocation Manual (CAM), (see Appendix 7) outlines how WaterNSW distributes corporate costs across its regulated and non-price regulated service streams. The allocation of costs to WaterNSW's supplementary activities (non-core) and other non-regulated services do not form part of IPART's pricing determination, and the costs are therefore excluded.

WaterNSW's net overheads are calculated as follows:

- We deduct those costs which can be directly allocated to determinations and non-core projects and those costs which are capitalised from the Total Gross Overhead.
- Net overhead costs are then fully allocated to the IPART Determinations, including the separate Wentworth to Broken Hill Pipeline Determination, and non-core and other projects

This allocation impacts the Base-Trend-Step (BTS) analysis in several ways:

- **Capital Expenditure Influence:** When forecast capital expenditure increases, the share of corporate overheads allocated to capital also rises, leading to a lower net allocation of corporate costs to the regulated operating service streams. Conversely, a decrease in forecast capital results in a higher allocation to regulated operating costs. This is evident in both the base adjustment and step.
- **Methodology Changes:** Over time, there have been changes to recorded costs shifting between overheads and core categories. To analyse the cost drivers of corporate functions such as Digital we have examined BTS at a total portfolio level before allocations i.e. core + overheads

3.3 Software as a service (SaaS)

According to accounting standards, SaaS costs are classified as operating expenses. However, the approach we have taken is to treat SaaS as regulated capex and this aligns with previous determinations. This means they are not included in regulated operating expenses and do not affect the BTS analysis.

4 Setting the efficient base year

The base year should represent a typical year with efficient, recurring controllable operating expenses, including necessary costs for sustainable operations.

The IPART 3Cs Handbook recommends that the efficient base year should be the penultimate year of the determination period. Our most recent year of actual (audited) financials available is 2022-23 which has been set as our base year supplemented with (unaudited) 2023-24 information in the Base-Trend-Step analysis where relevant.

4.1 Base year

Our regulated operating expenditure begins with a 2022-23 base year actual expenditure of **$201.1 million.** The costs include only Core (direct) and allocated overhead costs to the regulated determinations. We have excluded costs associated with the Wentworth to Broken Hill Pipeline, MDBA, Unregulated Weirs and non-core (core plus) projects.

4.2 Base year adjustments

To ensure that the base year is representative for forecasting future expenditures, we propose adjustments for:

- Removal of one-time operating expenses incurred during 2023-2024. As this is not recurrent expenditure, the baseline year has been adjusted to remove this expenditure.
- Added new or increased recurring operating costs up to June 2025
- Added new efficiency targets starting with 2024-2025.
- The net allocated position of the central overheads pool calculated in accordance with the cost allocation manual.

The key factors leading to base adjustments are identified in the table below.

Table 2 – Summary of base year adjustments ($millions $2024-25)

	Building Block of the Total Adjusted Base
Base – 2022-23	**$201.1**
Cost Escalation Factors and Provisions	**$26.3**
Employee Labour Costs	$8.4
Superannuation Obligations	$0.6
Long Service Leave and Annual Leave	$1.5
Insurance Premiums	$0.6
Land Tax	$5.3
Digital Related Costs	$9.8
Operating Model Related Cost Changes	**$24.7**
Efficiency Improvements – Cost Transformation Program	**-$2.4**
Overhead Allocation Adjustment	**-$14.1**
Ongoing Compliance Obligation Costs	**$1.4**
Cold Water Pollution Strategy	$0.8
Strategic (Flood) Modelling	$0.6
Non-Recurrent Expenses	**-$2.3**
Flood Related Costs	-$4.8
Regulatory Submission Costs	$2.5
Total Adjusted Base – 2024-25	**$234.7**

4.2.1 Cost Escalation Factors and Provisions

These adjustments relate to inflationary related impacts that have occurred between 2022-23 and 2024-25.

Employee and Contract Labour Costs

To reflect the updated WaterNSW Enterprise Agreement 2023, which took effect in late 2023 and expires in 2026, we need to adjust 2022-23 labour costs to **$2024-25**. The total average wage increase was 4.93% in both 2023-2024 and 2024-2025, comprising a 4% annual increase and a 0.93% increase for progress payments. Non-EA employees received a consistent 4% annual increase.

Additionally, due to changes in superannuation legislation, the guaranteed levy rose from 10.5% to 11% in 2023-2024 and further increased to 11.5% in 2024-2025. This increment was included in the 4% increase for Non-EA employees but was additional for EA employees.

Superannuation obligations

This relates to defined benefit superannuation and is an increase in the employer contributions to cover the cost of both the accrual of defined benefits for current employee members each year and the Net Past Service Unfunded Position (84%) as of 30 June 2023. This is based on the longest funding period available (10 years) to minimise the annual contribution.

Long Service Leave and Annual Leave

This relates to leave provisions that are revalued in line with wage growth and accrued entitlements.

Insurance Premiums

Insurance rates are increasing globally due to escalating frequency and severity of global risks, including major weather events, climate change and instances of cybercrime. This trend has a direct impact on WaterNSW insurance premiums.

Land Tax

There has been a significant increase in the land value of the portfolio in the last two valuation years of 2021 and 2022, increasing by 17% in 2021 and 30% in 2022 respectively. This has resulted in a 22% increase in WaterNSW 2023 land tax obligations.

Further, WaterNSW has significant holdings of land which have not historically been valued by the Valuer General (which mainly relates to Rural Valleys land) but which Revenue NSW has advised it will request the Valuer General to value as part of WaterNSW land tax assessment process. This is expected to increase land tax expense from 1 January 2025 by approximately $4 million per annum.

Digital Related Costs

The $9.81 million base adjustment shown in the table below represents direct core costs. Our analysis below for the base adjustment focuses on the combined variances of core costs and overheads, recognising that the overhead portion is included within the total corporate allocated costs

There are three key drivers to base cost increases in digital operating expenditure detailed below:

Software Licencing & Support Maintenance –Costs have increased due to factors such as growth in user numbers, product cost increases, regional pricing adjustments, loss of discounts, entitlement changes, and new feature requirements to comply with legislative and regulatory obligations.

Microsoft is by far the largest software renewal and support contract which has increased from $4m per year in FY23 to $6m per year in FY25, an increase of 50%. This is largely due to an uplift from Microsoft Enterprise E3 to E5, as E5 contains critical security features that are required to meet our obligations under the SoCI Act; growth in licensed user count from 1,188 in FY23 to 1,380 in FY25, representing an increase of 16%; and increased hosting and support charges. Other software licence and support maintenance contracts have increased on average by 6% per annum.

Telecommunications and networks – Increases from FY23 are due to higher risk, uncertainty and change, which has driven higher costs including, shutdown of Telstra's 3G network, increased bandwidth to offices to support changing work practices, rollout of CCTV, additional telemetry sites, additional licences for the customer help desk, provision of additional reliability for flood affected sites and recontracting of telecommunication services.

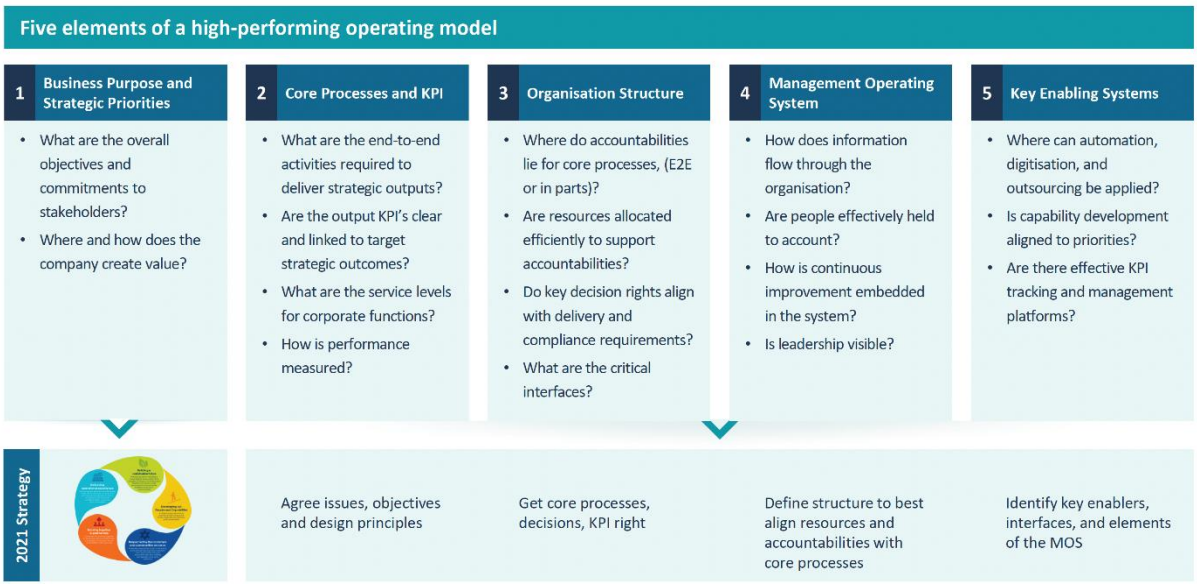
Cloud computing costs - WaterNSW, in line with NSW Government directions, has continued to shift hosting to the cloud, which has resulted in a higher recurrent business-as-usual operating expenditure to support (regulated) capital SaaS subscription costs. Programs such as WAVE has resulted in a larger cloud consumption and data charges. Cloud hosting costs in FY25 have increased over 40% since FY23.

4.2.2 Operating Model Related Cost Changes

The business finalised the development of its current Corporate Strategy in early 2021 and a key initiative was to review the operating model and organisational capability across the organisation to ensure there is confidence in delivering the outcomes and objectives of the new strategy.

Advisory firm Partners in Performance were engaged to make recommendations to the CEO in respect of a new operating model. This Operating Model report included changes to the organisational structure together with changes to governance mechanisms, processes, speed of decisions, streamlining of accountabilities and clearer targets and priorities. The objective of the new operating model is illustrated below:

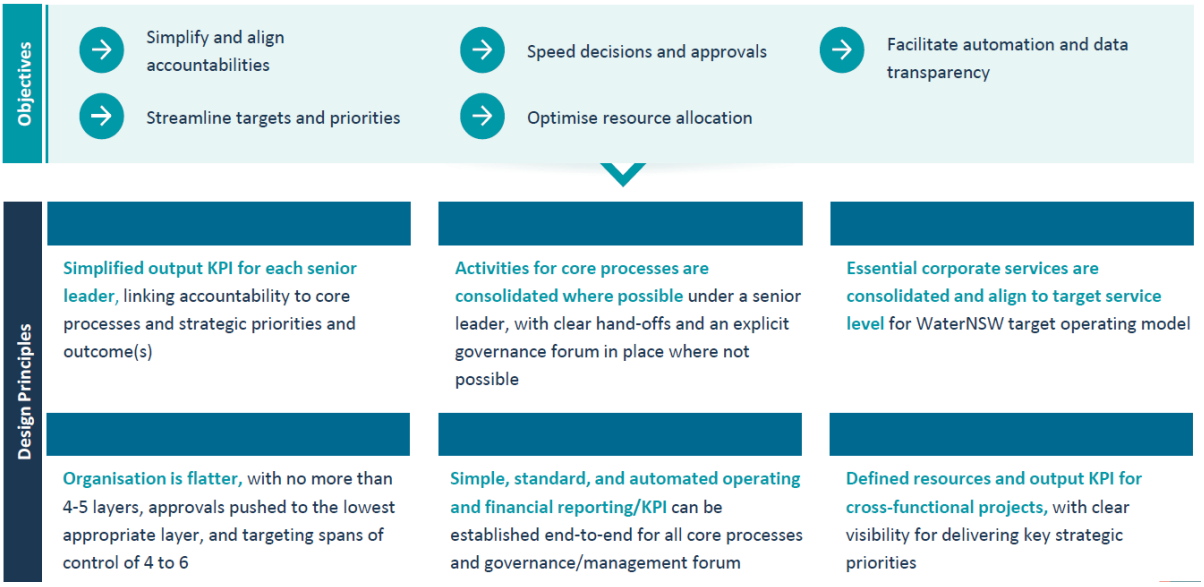
Figure 2 – Elements of a high performing operating model



The recommended organisational structure (under element 3 in the illustration above) included changes to and a reduction of the number of executives and senior leaders, to support a new leaner Portfolio structure.

The proposed changes to the operating model comprised 5 design objectives and 6 design principles that in combination enabled WaterNSW to deliver on our corporate strategy. These are illustrated below.

Figure 3 – Objectives and design principles of the new operating model



The proposed approach to achieving these was to consolidate a number of our current operational, corporate, regulatory and strategy functions into consolidated 'Portfolios'. The recommended organisational structure also supported the creation of a corporate affairs function and re-imagining our Digital / ICT functions as a more strategic and focussed digital transformation capability for the business.

These changes were accompanied by revised business unit charters and executive role descriptions including core accountabilities and KPIs. Changes to management committees and other governance structures also occurred to help streamline decision-making.

These changes were underpinned by benchmarking undertaken by Partners in Performance, and recommendations in relation to in-sourcing vs out-sourcing (particularly as it related to costs to serve), a layers and spans analysis to support recommendations on efficient organisational design, and internal governance forums and our way of operating (i.e. our management operating system).

To strengthen our commitment to regional communities and be a visible and accessible part of these communities, we have created specific senior roles based in the regions. This aligns with the IPART 3Cs handbook, which states that changes to customer outcomes may require changes to recurrent controllable opex to increase customer value. By having senior roles in the regions, we can ensure that decisions impacting regional communities are made by individuals who understand the impact of those decisions. This also helps remove any misperceptions that decisions are made in Sydney without considering the regional context. Despite the growth of online and phone transactions, our customers still value local presence. This is especially important for complex transactions. Regional contacts are highly appreciated, and our sector is eager to see increased local representation.

Additionally, we have focused on lifting the overall capability of the business by acquiring new talent and expertise, including from outside the water sector, to foster innovation and new ways of thinking.

Our additional investments in the Corporate Affairs and Strategy & Performance areas were required to further develop our relationships with key stakeholders, customers and the community and to meet our strategic priorities, in particular "Working together in Partnership".

Without the uplift in these areas, we would not have been able to achieve the objectives outlined in the IPART 3C's handbook.

4.2.3 Salary and Wages

Base adjustment proposed for salaries is $24 million of which:

- $10 million is for additional headcount from the operating model as per Table **3** below. In summary WaterNSW increased its employee numbers in some functions during the current period to achieve the intended outcomes of the new operating model. The increase in employee numbers was a combination of an increase in resourcing for continual improvement, implementation of augmented management operating systems, and key enabling systems.
- There are other normalisations that increased salary costs that relate to vacancies, investing in closing the gap on critical resources to increase efficiency of delivery, new capabilities to meet legislative and regulatory compliance obligations and improved services (e.g. new cybersecurity capabilities to deliver SoCI Act compliance & resourcing to support increasing demands from NSW water sector and operating licence obligations).

In addition, as part of the operating model redesign, the WaterNSW Corporate Affairs portfolio was established with resources from within the business to create a new, coordinated and contemporary portfolio. The creation of the function was essential given there was no coordinated communications function in the business to comprehensively service customers, stakeholders, government and the broader community. The function has allowed the organisation to be better aligned with the future regulatory requirements (such as IPART 3Cs Framework) and respond to the complex and highly scrutinised and politicised environment in which WaterNSW operates. The function is now well placed to lead engagement with stakeholders, deliver education, manage internal and external communications and coordinate relationships with Government and media, helping to deliver WaterNSW's purpose and vision.

An objective of the operating model was to partially offset these front-line employee increases by the reductions in senior leader numbers, as well as cost efficiencies through insourcing labour (further details are provided below). This change was also in response to customer preferences and needs. In addition to the restructure, which created several positions that were filled throughout 2023-24, the increase in employee numbers is partially offset by reductions in contractors.

Table **3** provides a net summary of the new and additional labour costs from the implementation of the new Operating Model.

Table 3 – Summary of net new headcount to WaterNSW Regulated Base Opex

	Operating Model Objectives						
Change/ Initiative	Simplify and Align Accountabilities	Speed Decisions & Approvals	Facilitate Automation & Data Transparency	Streamline Targets and Priorities	Optimise Resource Allocation	**Net FTE Change**	**$ Impact ($M)**
Operations	✓	✓	✓	✓	✓	19.5	$3.5
Customer Services	✓	✓	✓	✓	✓	7	$1.7
Corporate Affairs	✓	✓		✓	✓	12	$2.6
Cyber		✓			✓	5	$1.0
Strategy and Performance	✓	✓		✓	✓	9	$1.2
Total New Headcount						**52.5**	**$10.0**

In addition to the new headcount there has also been normalisations for the base year that relate to the following items

- Estimated vacancies in the base year of $5.0 million
- Capability uplift of $1.0 million mostly from within the Operations portfolio
- Continuous improvement on existing Digital/ICT platforms and systems of $3.5 million
- We have also improved the accuracy of project salary costings to the regulated core business and this has been offset in a reduction in corporate overheads

4.2.4 Efficiency Improvements – Cost Transformation Program

A key objective of our strategic priority 'Delivering Operational Excellence' is to provide affordable water services through operational efficiency.

We propose an **efficiency target of 1% of total operating expenditure per annum** starting in 2024-2025 to ensure that customers continue to receive the benefit from our transformation program over the next five years and to provide a strong incentive to WaterNSW to continue to find productivity improvements.

4.2.5 Overhead Allocation Adjustment

This adjustment relates to the change in regulated operating costs post allocation of corporate costs. The reduction is due to more costs being allocated to capital projects.

4.2.6 Ongoing Compliance Obligation Costs

WaterNSW has several regulatory obligations it must comply with to ensure it operates safely, efficiently, and sustainably, while protecting public health, the environment, and consumer interests.

Cold Water Pollution Strategy

Works Approvals made under the Water Management Act may include requirements (conditions) to manage cold water releases from our dams. The NSW Government has agreed on a strategy to investigate and, where possible, mitigate the impacts of cold-water pollution at the eight high priority dams (identified by the NSW Cold Water Pollution Strategy, 2012) where it is technically and economically feasible to do so.

WaterNSW Cold Water Pollution Mitigation Asset Options Report (Nov,2020) identified option studies for Blowering, Copeton and Keepit Dams. Investigation of these three high risk sites is progressing to completion in FY24. Additional cold water pollution mitigation options studies (CWPMOS) for the next priority sites - Wyangala Dam and Hume Dam - are required by WaterNSW to ensure we continue to demonstrate compliance with our Works Approvals. These studies will include:

- Assessing mitigation options for highest priority Rural Dams and high CWP risk sites – Wyangala Dam and Hume Dam
- Deliver Implementation Plan studies for current CWPMOS to improve ecological, sociological cultural benefit values for future cost benefit analysis to support future delivery funding.

This program is supporting the delivery of the NSW Water Strategy priority action 3.3. to "address cold water pollution through interventions such as temperature monitoring, new operating protocols and cold-water pollution mitigation technology at priority dams where cold water impacts are severe" and is aligned with the draft NSW Government's CWP Strategy being updated (draft received by WaterNSW Nov 2023).

Scientific Research and Innovation

WaterNSW conducts scientific research and modelling on catchment and river heath, and to protect and enhance the quality and quantity of water in the Greater Sydney Declared Catchment, to support WaterNSW in meeting its obligations under the WaterNSW Act and Operating Licence. The delivery of WaterNSW integrated modelling systems to inform integrated water resources and catchment management strategies, improving understanding of risks under our changing environment, from catchment to customer, to ensure safe and secure water supplies. This work also supports the implementation of Greater Sydney and Regional Water Strategies.

WaterNSW is improving operational decisions by developing probabilistic risk models for aquatic ecology protection (cyanobacteria blooms and fish as key indicators) to improve how we transfer water through weirs and off river storages (such as Menindee Lakes) and to manage flood and drought conditions and events.

4.2.7 Non-Recurrent Expenses

Flood Related Costs

During the 2022/2023 financial year our area of operation and customers were impacted by severe storms and flooding events. Significant rainfall volumes were experienced across our catchments which caused widespread damage and necessitated emergency planning and response activities across our area of operations.

Floods prevented access to sites resulting and the deferral of programs to 2023-2024 including asset maintenance and renewal, land management and metering upgrades. Significant resourcing efforts were required to undertake the planning and response to these events, resulting in an increase in contractors to repair damaged assets and assist with the insurance claims process. In addition, there

were significant additional staffing costs and overtime required monitor and respond to flood related activities over our area of operation.

WaterNSW is only able to recover incremental costs from iare.

The 2022/23 actual operational expenditure included $4.8m of expenditure related to these non-recurrent activities. Maintenance expenditure resulting from physical damage caused by the flooding events or deferred maintenance programs have been excluded from the Base year.

Regulatory Pricing Submission Costs

Increased consultancy and support costs were incurred to meet the requirements of IPART's 3Cs framework, including self-assessment against the 3Cs, guiding principles, and grading rubric, customer consultation and early engagement, business case development, and compliance with the base-trend-step framework.

5 Trend

In developing our operating expenditure forecasts we have examined major cost categories to identify, consider and explain trends that underpin our forecasts.

Our focus was on core (direct) costs and overheads so that we can provide a clear understanding of the underlying growth factors driving our costs.

Total **trend costs of $17.5 million** are proposed over the five-year determination period. This comprises wage increases, insurance premiums and land tax valuations, that is partially offset by cost efficiency savings of $32.8 million.

The table below reflects WaterNSW's proposed rate of change:

Table 4 – WaterNSW opex forecast trend (rate of change p.a., 2025-2030)

Trend change	2025-26	2026-27	2027-28	2028-29	2029-30
Labour	1.0%	1.0%	1.0%	1.0%	1.0%
Digital	2.2%	0.0%	1.1%	1.9%	-4.9%
Insurance	7.0%	7.0%	7.0%	7.0%	7.0%
Land tax valuation	8.4%	8.4%	8.4%	8.4%	8.4%
Efficiency improvement	1.0%	1.0%	1.0%	1.0%	1.0%
Rate of Change p.a.	0.2%	0.3%	0.4%	0.5%	1.3%

The rate of change is the **cumulative** trend (see Table **5** below) divided by the adjusted base**.**

Table **5** reflects the total operational expenditure impact of the trend changes:

Table 5 – WaterNSW opex forecast trend ($millions, $2024-25)

Trend change	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Labour	$1.2	$2.3	$3.5	$4.6	$5.8	$17.3
Digital	$1.0	$1.0	$1.5	$2.4	$0.0	$6.0
Insurance	$0.8	$1.4	$1.7	$2.1	$2.3	$8.3
Land tax valuation	$1.1	$2.3	$3.6	$5.0	$6.6	$18.6
Efficiency savings	$(2.4)	$(4.7)	$(7.1)	$(9.3)	$(9.3)	$(32.8)
Trend (cumulative)	$1.8	$2.3	$3.3	$4.8	$5.3	$17.5

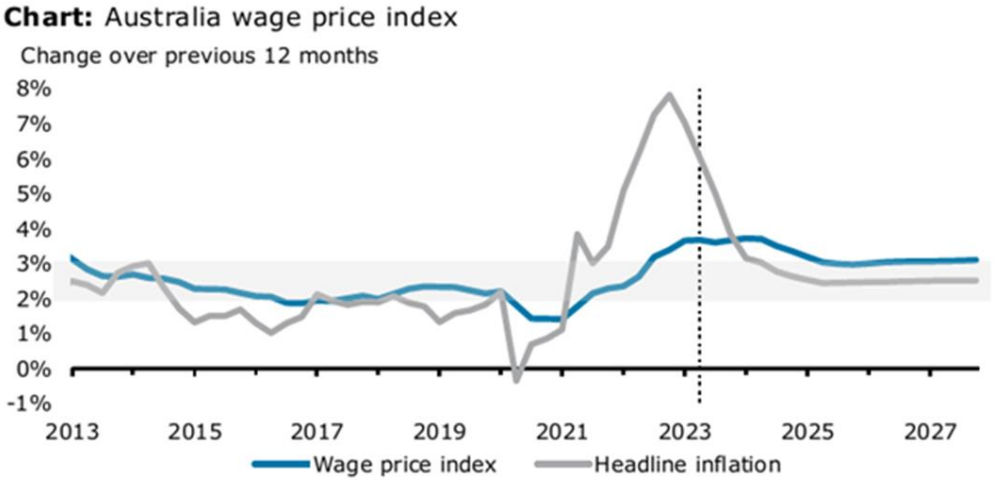
5.1 Trend assessment

5.1.1 Labour

Labour costs for the forecast period are forecast to change from the base year, against a recent trend of flat or low annual growth. Labour costs are a function of price (wages) and quantity (full-time-equivalent (FTE) resources).

Wage cost increases are expected to outstrip inflation over the next few years as illustrated in the figure below. This is important as approximately 60% of WaterNSW operating expenditure is labour and competition for finding and retaining talent places pressure on labour costs and service delivery.

Figure 4 – Australia wage price index change over previous 12 months



Source: Australian Bureau of Statistics; Deloitte Access Economics

We are forecasting an impact of 1.0% per annum 'real' change (i.e. excluding the impacts of inflation) in the future price of labour. The outcomes of the August 2023 Enterprise Agreement (EA) negotiations have formed the basis of our salary and wage cost rates for the length of the agreement, which terminates after the first year of the 2025 Determination period (2025-26).

Salary and wage cost changes for the remaining four years of the 2025 Determination period are based on a forecast of the wage cost index which averages 1.0% in real terms over the four years. Wage costs for these years' increases are currently aligned to the NSW Government Fair Pay and Bargaining Policy 2023 of up to 4.5% inclusive of superannuation guarantee increases of 0.5% in real terms ($2023-24). Superannuation

costs have increased in accordance with the Super Guarantee legislative requirements and are scheduled to progressively increase to 12% on 1 July 2025.

5.1.2 Digital costs

WaterNSW's adoption of cloud computing aligns with industry trends towards hosting digital services that scale rapidly in response to customer demand, and support more agile development of new services. Cloud operating costs are increasing at a rate above inflation with additional data, new functions for customers, improved security and vendor price rises. Cloud costs have grown by 22.28% annually between 2023 and 2025 and are forecast to rise 16% annually, which compares favourably with the NSW Government benchmark of 26%.

A continued concerted effort to drive down operational costs and improve efficiency has enabled us to tangibly offset the above digital trend resulting in an immaterial trend for digital related costs over the FY26-30 period.

5.1.3 Insurance

Insurance rates are increasing globally due to escalating frequency and severity of global risks, including major weather events, climate change and instances of cybercrime.

In accordance with NSW Treasury Circular TC20-05 Mandatory Use of the Treasury Managed Fund (TMF) for All Government Insurance Requirements, WaterNSW is required to be a TMF member for its insurance requirements and is required to obtain cover for its insurable assets and liabilities through the TMF, managed by icare. This provides government agencies with access to cost effective insurance.

icare annually conducts commercial insurance market benchmarking to measure value for money through the TMF. Such benchmarking exercises consistently demonstrate the lack of commercial insurance market capacity to support the breadth of coverage afforded through the TMF, as well as the value for money achieved through the TMF as compared with commercial insurance alternatives.

Historically, insurance rates have increased by 17.4%p.a. (FY2021 – FY2025). We expect this trend to continue and have estimated an increase in insurance rates by 8.6% p.a. (FY2025 to FY2030).

During the period FY20 to FY23, which has been impacted by significant weather events, WaterNSW has made average annual insurance claims of $14.4 million per annum, which are significantly higher than the current Property insurance premium / contribution ($5.2 million in FY25).

With effect from 1 July 2024, a deductible of $10,000 per occurrence (previously $nil) for Property claims applies, which has resulted in a reduction in insurance contributions of approximately $60,000 in FY25.

5.1.4 Land Tax Valuations

Land tax is calculated on the total value of taxable land above the land tax threshold and is determined on the average land value from the current year and the two past years as determined by the NSW Valuer General.

WaterNSW owns substantial land holdings that have not been historically assessed by the Valuer General, primarily consisting of Rural Valleys land. However, Revenue NSW has advised its intention to request the Valuer General to value these properties as part of WaterNSW's land tax assessment process.

To estimate land values for forecasting purposes, WaterNSW engaged the services of JLL.

Historically, valuations for our land holdings have increased by 11.7% p.a driven by increases in the market value of land. We expect this trend to continue and have estimated an increase in land valuations by 8.4% p.a.

In assessing the trend for land value growth, JLL sourced data from the NSW Valuer General which provides historic land value growth for a selection of properties since 1996.

Table 6 – Trend for land value growth

Trend change	CAGR
Long term Growth Rate (27 years)	8.4%
Recent term Growth Rate (10 years)	13.7%
WaterNSW Land Valuations Growth Rate (10 years)	11.7%

5.1.5 Efficiency Improvement Rate

WaterNSW has a strong commitment to delivering ongoing efficiency savings.

WaterNSW continues to have a focus on cost efficiency across the business. Under the corporate strategy key priority of *delivering operational excellence* our Cost Transformation Program remains a key strategic initiative supported by the Executive team and approved by the Board. These are described in detail in Attachment 9.

The figure below outlines the key areas of focus for both short- and long-term cost efficiencies.

Figure 5 – Key areas of focus for both short- and long-term cost efficiencies

5.1.6 Non-core revenue

While not directly related to the submission, we are pursuing several opportunities to increase non-regulated sources of revenue. One of the key benefits from a regulated customer perspective is that we can allocate some of the fixed overhead costs of the business across those non-core activities. We currently do this for any projects funded from "non-regulated customer" sources including government funded initiatives.

The three key areas of opportunity that we are developing are:

- **Renewable Energy & Storage Program**: We have entered into development agreements with three development partners to-date. Under these agreements WaterNSW leases land to the development partner and will earn lease revenue once the schemes become operational, should they do so.

- **Local Water Utilities:** WaterNSW has been supporting a government program called Town Water Risk Reduction Program. Under the program WaterNSW is working with local water utilities to meet dam safety and water quality management requirements. This program received $10m in government funding over 2 years to June 2025. Our aim is to continue to provide similar serves beyond then assuming appropriate funding models can be agreed.

- **Carbon & Biodiversity credits:** We have recently embarked on a program to identify opportunities to understand opportunities for development of biodiversity and /or carbon credits through improved use and management of our land assets. This could either be through in-house development of these opportunities or through leasing/partnering arrangements with third parties.

In all the above instances we are not currently able to forecast revenue from these initiatives as they are still in their infancy. However, as they are developed, we will allocate fixed overhead, thereby reducing some cost impact on regulated customers.

6 Step Change

Step changes are forward-looking changes in the recurrent controllable operating costs of providing services. Our proposed step changes are added or subtracted to account for costs not compensated for in the adjusted base year or the trend variables but should be included to allow for an efficient expenditure profile. WaterNSW has utilised a step change criterion (as shown in Table 7) to ensure that the identified step changes aren't double counted in the opex forecast and guarantee prudent and efficient expenditure.

Our main steps relate to:

- Changes in **regulatory obligations**, such as operating licences, environmental protection obligations, and health or statutory obligations. These changes constitute a step change when they increase or decrease recurrent controllable costs.
- Changes to customer outcomes that require changes to recurrent controllable costs to increase customer value. For example, a business may propose a step change to costs to reduce its carbon footprint to meet a customer outcome of net zero emissions.
- Substitution between cost and capex that leads to a step change in recurrent controllable costs.
- **New recurrent controllable cost** resulting from new capex or expiring grants.
- Changes to the regulated portion of net corporate overheads after allocation, with steps influenced by the post-capital cost share

6.1 Step change assessment

WaterNSW is proposing **$54 million in step changes** in our opex forecasting from the 2022-23 adjusted base year for the 2025 determination period.

The key step items identified in the table below:

Table 7 – Summary of step change ($m, $2024-25)

Step change	2025-26	2026-27	2027-28	2028-29	2029-30	Total
New operating licence conditions	$0.8	$3.7	$5.1	$5.1	$5.1	$19.9
Compliance uplift: Existing regulatory requirements	$6.9	$6.6	$5.9	$6.4	$6.4	$32.3
New regulatory requirements	$0.8	$0.7	$0.7	$0.7	$0.7	$3.6
New recurrent controllable opex resulting from new capex	$1.3	$1.3	$1.3	$1.6	$1.2	$6.6
Grant expiry	$0.4	$1.4	$1.7	$1.2	$0.7	$5.5
Water licence fees	$3.6	$4.3	$5.1	$5.9	$6.8	$25.7
Regulatory submission	$(2.1)	$(2.0)	$0.0	$0.8	$(1.3)	$(4.6)
Other- Allocated overheads	$(2.1)	$(10.8)	$(9.7)	$(7.9)	$(4.2)	$(34.7)
Total	$9.6	$5.3	$10.1	$14.0	$15.4	$54.3

6.1.1 New operating licence conditions

IPART conducted an end-of-term review of WaterNSW's operating licence 2022-2024 which expired on 30 June 2024. IPART recommended a new operating licence for WaterNSW, to come into effect on 1 July 2024. On 31 May 2024, IPART provided their recommended WaterNSW Operating Licence 2024-2028 to the Minister for Water. At the same time, IPART also provided WaterNSW with a copy of the licence.

At IPART's request we conducted a cost / benefit analysis (CBA) on the Issues Paper that was released in late 2023. Based on our understanding of the likely licence changes, we estimated the potential cost implications to be approximately $19.8 million in direct costs over the determination period, with the majority of the impact to be incurred in the Rural Valleys.

However, once the final Operating Licence was issued, we were better able to understand and more accurately quantify the scope of these requirements. This proposition relies on some underlying assumptions of scope and timing that are yet to be resolved with IPART and DCCEEW. We will endeavour to do so over the coming months. If our assumptions are not agreed, then the cost estimates will change further.

Nevertheless, we consider that the following areas of the new operating licence will represent a significant step change in expenditure during the determination period with the ongoing additional costs ramping up to FY27 as reflected in Table **8**

Table 8 – New and ongoing additional costs

	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Greater Sydney	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Rural Valleys	$0.8	$3.7	$5.1	$5.1	$5.1	$19.8
Total New Operating Licence opex	**$0.8**	**$3.7**	**$5.1**	**$5.1**	**$5.1**	**$19.8**

Operating Licence obligation	How WaterNSW will meet this Requirement	Ongoing additional costs (per annum)
Water Quality Management System (WQMS)	Water NSW is required to maintain a management system for water quality that complies with health requirements specified by NSW Health.	• Rural Valleys (RV) = $300k over first 2 years • Development in non-declared catchment • Assumption 30 councils for 'in scope' water • 1 FTE in addition to existing resources Commencing 1 July 2025 • RV = Non-declared catchment OPEX = $150k p.a. over years 3, 4, 5 • 1 ongoing FTE= $150k/year
Water quality monitoring enhancement program	Water NSW must, from 1 July 2026, maintain an ongoing water quality monitoring enhancement program that enhances risk-related monitoring of raw water and identify locations where monitoring equipment needs to be installed, replaced or relocated. Water NSW must, by 30 November each year commencing 2026, submit an annual report to IPART and the Department detailing its program-related activities for the preceding financial year and the implementation timeline for outstanding activities	• RV - OPEX $1.64m up to $2.68m once fully implemented.
Early warning system	Water NSW must, from 1 July 2026, maintain an effective system for providing advance notification. • significant changes to flow from its works • changes to water source • changes to offtake levels that significantly impact water characteristics. • exceedance, or forecast exceedance, of the water quantity. to all persons, including customers, who have registered for notifications (early warning system). To meet these requirements it will require a significant IT system and	• Greater Sydney (GS) = $11k p.a. • RV = $945k p.a. • $100k licensing • 6 FTE $950k

Operating Licence obligation	How WaterNSW will meet this Requirement	Ongoing additional costs (per annum)
	modelling for forecasting exceedances.	
Expanded education program	Water NSW must, from 30 November 2025, maintain a strategy for an ongoing statewide community education program. To meet this requirement, it will require. • Targeted (mid-level) rollout of outreach community education projects outside declared catchment. • Assessment to determine key target areas. • Creation of resources for a mobile exhibition. • Adaptation of materials for regional areas. • Leveraging existing and new projects e.g. Ops major projects incl hydro, Stakeholder Engagement program and calendar of events, TWRRP, collaborations with water sector/ agency partners	**RV = $1.3m** (1 year to establish, 2024-25) Scoping for Non-declared Catchment • $500k Opex (including 1 FTE)
Expanded research program	Water NSW must, by 30 November 2025, develop a strategy, maintain and implement an ongoing research program for catchment health and downstream river health. Water NSW must by 30 June 2027 submit a report to IPART detailing the outcomes of the ongoing research program.	• RV = $160k (1 year to establish 2024-25) • RV $600k p.a. for non-declared catchment (years 2-5)

In developing these projections we have looked to minimise the impacts of costs on WaterNSW and our customers by absorbing some of these changes in current work practices and driving greater productivity in the business.

6.1.2 Existing regulatory obligations

Step changes in opex are required to ensure that WaterNSW is compliant with existing requirements, where there is currently non-compliance. Existing regulatory obligations that will requires step changes include the Land Management Program, Crane Safety Improvement, and Electrical Safety Program.

Land Management Program ($21.2m): In 2015 the Biosecurity Act was introduced. The new Act brought with it new obligations on landholders to manage pests and weeds. WaterNSW responded well to those changes across its Declared Catchment holdings in its 2018-2022 price path submission, however, these responses were not replicated across its rural land holdings. Similarly, following the 2019-20 bushfires and the subsequent State and Federal inquiries, significant changes were introduced to standards regarding bushfire management. Again, WaterNSW requested and received additional funding in the Declared Catchment but did not seek additional funding for its rural land holdings. The result is that WaterNSW is not currently managing its lands and associated recreational facilities to meet the Australian Building Code, Fire Trail Standards mandated by the Rural Fire Service or meeting its general biosecurity duty under the Biosecurity Act. The lands management program would be undertaken across all the Rural Valleys. Key improvements arising from this activity will benefit users of WaterNSW recreational facilities, surrounding communities and farmers.

Crane Safety Improvement ($6.4m): WaterNSW has over 280 assets that are considered cranes, winches or hoists. The development of the WaterNSW Cranes and Lifting Equipment Asset Class Strategy identified a number of improvement opportunities around the management of cranes assets. This included alignment of existing maintenance strategies to industry best practice and Australian Standard Requirements. WaterNSW places a priority on the Health and Safety of our employees, contractors and general public. Completion of this activity will ensure compliance with Australian Standards, the Work Health Safety Act 2011 and Work Health Safety Regulation 2017, and actively reduce one of our safety risks that can have significant consequences if left untreated.

Electrical Safety Program ($1.1m): The primary objective of the Electrical Safety Improvement (ESI) program is to identify, quantify and manage major electrical safety risks across WaterNSW powered sites. This is a continuation and expansion of the electrical safety program previously allowed for by IPART in its 2021 price determination for Rural Valleys. The risk of not addressing the current state is potential harm to workers and plant and breach of Work Health and Safety Act and Regulation requirements as well as non-compliance with ISO 55001.

6.1.3 New regulatory obligations

Step changes in opex are required to ensure that WaterNSW is compliant with new regulatory requirements. New step changes to meet new regulatory requirements include the Security of Critical Infrastructure (SoCI) Act compliance, Fleet Telematics, Environmental & cultural water, and Operational property upkeep.

SoCI Act compliance: As part of Australia's Cyber Security Strategy 2020, the Australian Government introduced critical infrastructure law reforms with the aim to protect and improve the resilience of Australia's critical infrastructure. The reforms to the SOCI Act (2021) seek to strengthen the security and resilience of critical infrastructure assets by introducing Positive Security Obligations (PSOs) that require entities to manage the security and resilience of their critical infrastructure assets. The SOCI Act imposes obligations on 'Responsible Entities', such as WaterNSW, that hold critical infrastructure assets in high-risk sectors, including the water and sewerage sector. The obligations aim to establish mechanisms to protect and strengthen the security of such assets in order to manage national security risks.
This funding will ensure that WNSW can undertake the appropriate site-based assessments and reporting activities to comply with the requirements of the Act.

Fleet Telematics ($0.3m): To enhance the safety of our people, WaterNSW is implementing Fleet Telematics. The operation of this system incurs an annual subscription. Implementation of this program will align with NSW State Government Travel and Transport Policy – Appendix 2 – NSW Government Fleet Telematics Policy. In vehicle telematics is mandated for general purpose NSW Government fleet vehicles, excluding 100% salary packaged, heavy commercial, plant and equipment and emergency operational vehicles. The proposed step change involves the implementation of Fleet Telematics to enhance safety, operational efficiency and compliance within the fleet. This change aligns with the IPART requirements.

Environmental and cultural water ($1.9m): Changes in government policy and legislation have seen the rapid increase in environmental water holdings. Namely the Commonwealth Water Amendment (Restoring our Rivers) Bill which is legislation that aims to improve the health of the Murray-Darling Basin by recovering more water for the environment. This legislation and the resulting increase in environmental water holdings and associated targeted flows planned and ordered by environmental water holders requires dedicated and specialist skills to manage and coordinate the planning and delivery of environmental water. As such, WaterNSW seeks to employ two dedicated resources to ensure that obligations relating to environmental water are met.

Operational property upkeep ($1.2m): New regulatory obligations impact operational facilities in NSW. These obligations, established through updated environmental protection licenses, health and safety regulations, and ISO 55001 and ISO 45001 standards, require significant enhancements to facility operations, maintenance protocols, and compliance measures.

Other: There have been numerous other new or changes in legislation and regulations which WaterNSW has managed without step increase in our costs, examples include, but are not limited to the PIPP Act, Modern Slavery Act, Public Interest Disclosure Act, and environmental standards reporting.

6.1.4 Land tax

WaterNSW owns over 6,000 parcels of land throughout New South Wales.

FY2023 land tax expense of $7.9 million included an additional $0.6 million catch-up for land tax in relation to WAMC land transfers processed in 2020 and 2022. Also, based on additional analysis performed in FY2024, the FY2023 land tax estimate was revised downwards by $0.7 million primarily due to lower growth rates in property values in Greater Sydney.

Further, WaterNSW owns substantial land holdings that have not been historically assessed by the Valuer General, primarily consisting of Rural Valleys land. However, Revenue NSW has advised its intention to request the Valuer General to value these properties as part of WaterNSW's land tax assessment process. This is expected to increase land tax expense from 1 January 2025 by approximately $4.0million per annum.

Additionally, land values as valued by the Valuer General have increased, and will continue to increase, the land tax obligation going forwards. Land values have been assumed to increase by 8.37% per annum from 2025 based on the NSW Valuer General's long term growth rate (noting that land tax is generally determined based on a 3 year rolling average of property values).

6.1.5 New recurrent controllable opex resulting from new capex

Chaffey pipeline ($0.6m): As a drought measure WaterNSW constructed an 18.2km pipeline from Chaffey dam to Tamworth, allowing water to be transferred to the Dungowan pipeline by piping it into Tamworth Regional Council's Calala Water Treatment Plant. The Chaffey to Tamworth Pipeline eases pressure on the Chaffey Dam supply by directly piping water to Tamworth Regional Council for treatment and distribution to reduce transmission losses. An allocation of $0.16 million per year will enable the pipeline to be tested on an annual basis, ensuring it remains in a stand-by state should it be needed for operation.

To explore the long-term operations of the pipeline outside of drought conditions there is also an urgent need to undertake a range of biodiversity offset and monitoring activities while allowing the pipeline to remain operational when required. An additional allowance is also forecast of $0.6 million over the first four years of the next regulatory period.

Fish River Dosing and Sludge Lagoons ($1.4m): To support improved Water Quality outcomes following the capital expenditure upgrade at Fish River, additional dosing will occur using the potassium permanganate

plant. Additional activity will also be required to manage the sludge lagoons including desludging a pond every 5 years, resulting in increased monitoring and sampling activities.

6.1.6 Community Service Order (CSO) or Grant expiry

Water Modelling Grant ($6.2m): The Water Modelling Team are currently funded under a grant (funding expiring June 2025) to develop hydraulic and hydrologic modelling into CARM (Computer Aided River Management).

The CARM model is a tool used in river management and flood operations. It is a computer-based system that assists in the planning, design, and decision-making processes related to water delivery and the operation of river systems.

The CARM model incorporates various data sources, such as river hydrology, hydraulics, and geomorphology, to simulate and analyse river behaviour. It helps assess and predict how rivers may respond to changes in flow in different circumstances and can be used to evaluate the impact of different operational strategies. By simulating the behaviour of river systems under different scenarios, the CARM model assists in making informed decisions regarding river management, flood risk mitigation, and environmental impact assessments. It helps planners, operators and engineers better understand the complex interactions within river systems and supports the development of sustainable and effective river management strategies.

On expiry of the grant funding, additional operating expenditure not included in the base year, will still be required to provide essential:

- maintenance and support of the developed models
- analysis and assessment of resultant model data

These ongoing core activities are vital to ensure the continued and effective functioning of the CARM model in enhancing the understanding of river systems, supporting river management decisions and ensuring water is delivered when and where it matters for our customers and communities.

6.1.7 Other step changes

EAMS Roadmap ($0.4m): The incremental increase in cost for FY26 – 30 is for the uplift of capability and capacity in the Enterprise Asset Management System's (EAMS) team. This is to support the increase in demand on core activities as a result of the implementation of the Field Service Optimisation and Safety Platform (Platform 6) in the Technology Roadmap. This is new recurrent controllable opex resulting from new capex. As WaterNSW continues to enhance and extend the coverage of EAMS across the organisation, the resources required to support and manage the system must also grow. This ensures there is no interruption to Operations' ability to meet its obligations and maintain assets efficiently.

Operations Performance & Support Initiatives ($0.6m): The Operations, Performance and Support (OP&S) business unit includes additional costs for a new team which was not incorporated in the 2023 base year. As the bridge between our Corporate and Operational Portfolios, OP&S seeks to deliver:

1. Consistent reporting and insights to drive integrated decision support and performance uplift across our tactical, planning and operational value chain.
2. Effective business process management to underpin succession planning, knowledge transfer, opportunity identification and capability maturity assessment.
3. Consolidated data governance, functional requirements, change, defect and release management, with respect to the four systems the Portfolio has business ownership of:
    a. Enterprise Asset Management System (EAMS)
    b. Geographic Information Systems (GIS)

c. Damguard
d. Water Data Systems (field-based data capture through to online publishing)

4. Clear guidance and decentralised delivery models for built infrastructure, physical asset security, land management, light vehicles, plant and equipment.
5. Customer focused business partnering to enhance business-wide operational safety, environment incident management and dam safety emergency capabilities.

The proposed opex step change reflects training, travel and vehicles associated with the new team.

Bathymetric Survey Program ($0.4m): Completion of a Bathymetric survey at key rural sites would enhance the operational knowledge of available storage volumes. A Bathymetric survey maps the terrain beneath a body of water to illustrate depth – enabling accurate volume calculations to be completed. Having this level of understanding is important from an operations perspective, particularly in periods of drought.

Water carting ($1.2m): WaterNSW manages Private Water Supplies at 15 regional dam and 2 weir sites. Users at each site are a combination of employees (workers and tenants), private tenants and third-party tenants.

A review of system performance identified that some of the private water supplies did not always meet the requirements of the Australian Drinking Water Guidelines (ADWG). Treatment systems were treating raw water in-line with Quality Assurance Plans, however there were heightened risks posed to the quality of drinking water due to in adequate treatment relative to source water risks. Based on a detailed options assessment, water carting was identified as the most balanced and cost-effective option for the regional sites when compared to the other options. Based on the options assessment this step change is new current controllable opex resulting from capex from the new tanks.

Hydrometric Network enhancement ($0.9m): Lake Brewster and Lower Lachlan will have an increase in the number of surface water/hydrometric sites so that these systems can be managed more efficiently. This will result in better information on Lake Brewster water levels which leads to more efficient use of available water (particularly for pelican breeding season). The 6 additional hydrometric assets will lead to additional associated operations and maintenance costs.

Operations & Maintenance for dissolved oxygen (DO) monitoring: A range of new sites have been installed or upgraded for dissolved oxygen monitoring. These upgrades throughout our system are important to monitor oxygen levels and help monitor and respond to water quality events.

External funding has been provided for the installation of 12 new dissolved oxygen (DO) sites in Lachlan (6 sites) and Barwon Darling (6 sites). These sites will now transfer to WaterNSW resulting in additional on-going Operations and Maintenance costs.

Due to the importance of dissolved oxygen monitoring, more than 40 additional dissolved oxygen sensors are to be installed within the Inland valleys. These will primarily benefit DCCEEW for water quality assessment and Basin Planning. They will also assist in event management and on-going learnings. The sites will require ongoing operations and maintenance following construction.

Operations & Maintenance of new hydrometric sites: The Yanco Creek System Hydrometric capital project is being delivered by WaterNSW in the current regulatory period. Ongoing operations and maintenance costs will include water quality (Temp, DO, EC and turbidity) and flow monitoring. The introduction of these sites will support the efficient operation of the Yanco Creek system as an initiative under the Sustainable Diversions Limit Adjustment Mechanism (SDLAM).

ESG Program: We have included an increase in expenditure to address increased obligations on the business particularly related to managing climate change obligations and emissions reduction.

During FY24 we initiated two key pieces of work: a comprehensive climate risk analysis and a detailed assessment of our emissions. In both cases we also started to consider future actions in response to the findings. These initiatives are expected to be completed in FY25.

In both instances there is no practical 'do nothing' option. However, we recognise the need to minimise the financial impact on customers of any interventions in response to reduced emissions, climate change adaptation and mitigation measures. To that end, we have adopted what we consider to be a conservative approach to emissions reduction and longer–term climate change adaptation actions. The planning and initial investigations into appropriate cost-effective options is included in our submission.

As part of our customer engagement process for developing the submission we outlined the proposed investment of just over $7m over the next five years. Customers generally supported the need to take a proactive approach to emissions reduction and the potential for longer-term returns through opportunities to utilise land to develop carbon and biodiversity credits, but were consistent in their feedback that WaterNSW should seek to proceed cautiously and minimise the cost of doing so.

Our submission includes an increase in expenditure to address these issues, summarised below:

Table 9 – Investment for reduced emissions, climate change adaption and mitigation measures

	Cost estimates ($m)					
	2022-23	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**
Addressing net zero obligations and climate related disclosures	$0.3	$0.6	$0.5	$0.4	$0.0*	$0.0*
Climate change adaptation risk mitigations	$0.2	$0.2	$0.1	$0.1	$0.1	$0.1
Additional catchment management activities in regions to address land quality issues	$0.1	$0.2	$0.3	$0.3	$0.3	$0.3
Total	**$0.6**	**$1.0**	**$0.9**	**$0.8**	**$0.4**	**$0.4**

*This assumes that all future emissions reduction activities will be managed outside our regulated cost base.

We are proposing to utilise existing land assets to develop carbon and biodiversity credits that will contribute to net zero obligation in the future. However, we have not included the costs of establishing these within this proposal. As our assumed approach is to work with partnering organisations and/or manage this outside our regulated pricing framework. We also recognise that there is demand from third parties making it possible to enter into partnering arrangements that could result in the sharing of costs and benefits.

Water licensing fees

Impacting the Greater Sydney Determination, the increases in water licensing fees are made up of higher overall costs of Water Management and Planning Functions as per the WAMC pricing proposal and higher overall cost of Fish River Transfers for the Greater Sydney Region.

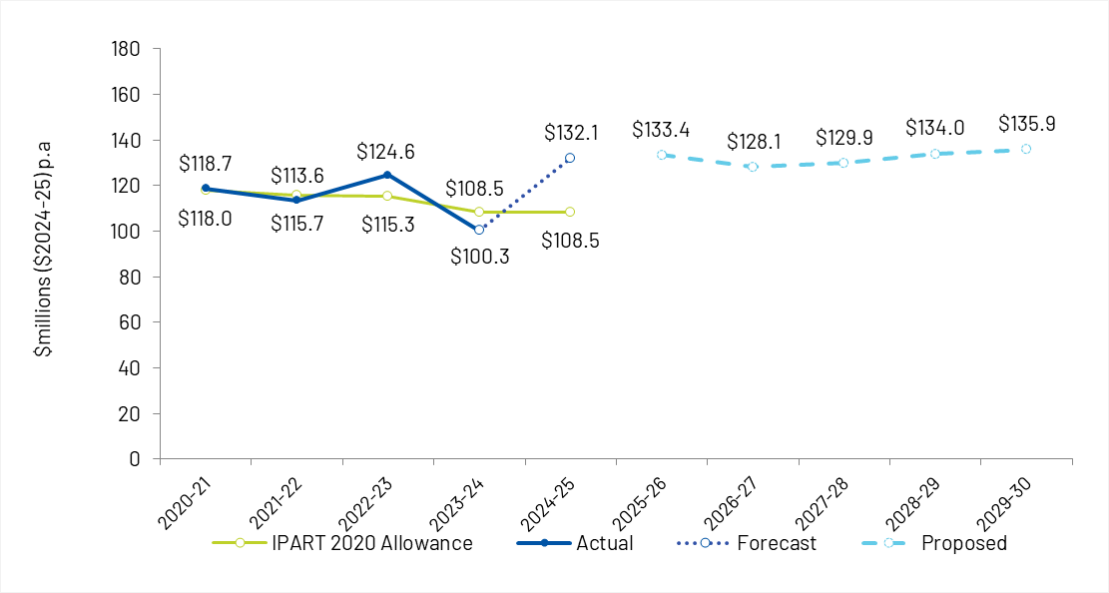
7 Greater Sydney

7.1 Proposed operating expenditure – Greater Sydney

Greater Sydney's estimated total opex forecast for the upcoming 2025-30 determination period is $661.3 million representing a 15.7% increase in real terms compared to our IPART allowance for 2020-25 determination period.

As illustrated below**Error! Reference source not found.**, our proposed Greater Sydney opex ranges from $133.4 m illion in 2025-26 to $135.9 million in 2029-30, an increase of 1.87%. The proposed **annual average opex of $132.3 million** is $17.9 million per year, or 15.7% higher than the average annual amount of $114.3 million from the 2020-25 Determination.

Figure 6- Actual, allowed and forecast opex for Greater Sydney ($million, $2024-25)



** Note that the IPART 2020 Greater Sydney allowance for 2024-25 equals the 2023-24 value on the basis that the deferral year (2024-25) sets a price path, but IPART has not made a determination on the efficient expenditure allowances for that year.*

Table 10 – Base-Trend-Step calculation for Greater Sydney ($million, $2024-25)

	2022-23	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Base	**$116.5**	**$116.5**	**$116.5**	**$116.5**	**$116.5**	**$116.5**	**$582.7**
Base Adjustment	$12.1	$12.1	$12.1	$12.1	$12.1	$12.1	$60.5
Adjusted Base	**$128.6**	**$128.6**	**$128.6**	**$128.6**	**$128.6**	**$128.6**	**$643.2**
Trend		$1.0	$1.5	$2.0	$2.6	$2.7	$9.7
Step		$3.8	$(2.0)	$(0.7)	$2.7	$4.6	$8.4
Total Opex		**$133.4**	**$128.1**	**$129.9**	**$134.0**	**$134.0**	**$661.3**

7.1.1 Base year adjustments

We have explained the details related to the drivers of total base year adjustments for WaterNSW in Section 5.2. For this section, we will focus on the main differences between proposed adjustments for Greater Sydney and the other two determinations (Rural Valleys and WAMC). The Greater Sydney determination is the only determination that proposes a base year adjustment for strategic (flood) modelling of $0.6 million.

This includes costs related to Portfolio Risk Assessment (PRA), River Operations Modelling System and Decision Pathways and Short-term Ensemble Forecasting System for Storage Operation, yield modelling, and integrated catchment and water quality modelling. This would enable strategic modelling continuous improvements, maintenance, and developments to support:

- Long-term strategic planning, mitigation strategies development and prioritisation.
- Flood and storage operations in NSW.
- Managing Asset Risks from Climate Change.

Table 11 – Summary of base year adjustments for Greater Sydney ($millions, $2024-25)

	Building Block of the Total Adjusted Base
Base – 2022-23	$116.5
Cost Escalation Factors and Provisions	**$10.5**
Employee and Contract Labour Costs	$3.5
Superannuation Obligations	$0.3
Long Service Leave and Annual Leave	$0.7
Insurance Premiums	$0.4
Land Tax	$0.8
Digital Related Costs	$4.8
Operating Model Related Cost Changes	**$12**
Efficiency Improvements – Cost Transformation Program	**-$1.1**
Overhead Allocation Adjustment	**-$6.8**
Ongoing Compliance Obligation Costs	**$0.6**
Cold Water Pollution Strategy	$0.00
Strategic(flood) Modelling	$0.6
Non-Recurrent Expenses	**-$3.0**
Flood Related Costs	-$4.1
Regulatory Submission Costs	$1.1
Total Adjusted Base – 2024-25	**$128.6**

7.1.2 Trend assessment

WaterNSW has proposed a total trend opex of $9.8 million for Greater Sydney. The main drivers of increases in trend opex come from increases in labour costs and land tax valuation costs.

Table 12 – Greater Sydney opex forecast trend ($millions, $2024-25)

Trend change	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Labour	$0.5	$1.0	$1.5	$2.0	$2.6	$7.7
Insurance	$0.5	$0.8	$1.0	$1.2	$1.3	$4.8
Land tax valuation	$0.6	$1.2	$1.9	$2.6	$3.4	$9.6
Efficiency savings	$(1.1)	$(2.1)	$(3.2)	$(4.4)	$(4.5)	$(15.3)
Digital	$0.5	$0.5	$0.8	$1.2	$0.0	$2.9
Total Trend Change	**$1.0**	**$1.5**	**$2.0**	**$2.6**	**$2.7**	**$9.8**

7.1.3 Step change assessment

Table 13 – Greater Sydney opex forecast step change ($millions, $2024-25)

Step Change	2025-26	2026-27	2027-28	2028-29	2029-30	Total
New Operating Licence conditions	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Compliance Uplift with Existing Regulatory Requirements	$1.7	$1.4	$0.8	$0.8	$0.5	$5.3
New Regulatory Requirements	$0.4	$0.3	$0.3	$0.3	$0.3	$1.7
Regulatory Submission Costs	$(1.0)	$(0.9)	$0.0	$0.5	$(0.5)	$(2.0)
CSO / Grant Expiry	$(1.1)	$(1.1)	$(1.1)	$(1.1)	$(1.1)	$(5.4)
New Recurrent Controllable Opex Resulting from New Capex	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Overhead Allocation Adjustment	$0.2	$(6.1)	$(5.9)	$(3.9)	$(1.4)	$(16.9)
Water Licence Fees	$3.6	$4.3	$5.1	$6.0	$6.8	$25.8
Total Step Change	**$3.8**	**$(2.0)**	**$(0.7)**	**$2.7**	**$4.6**	**$8.4**

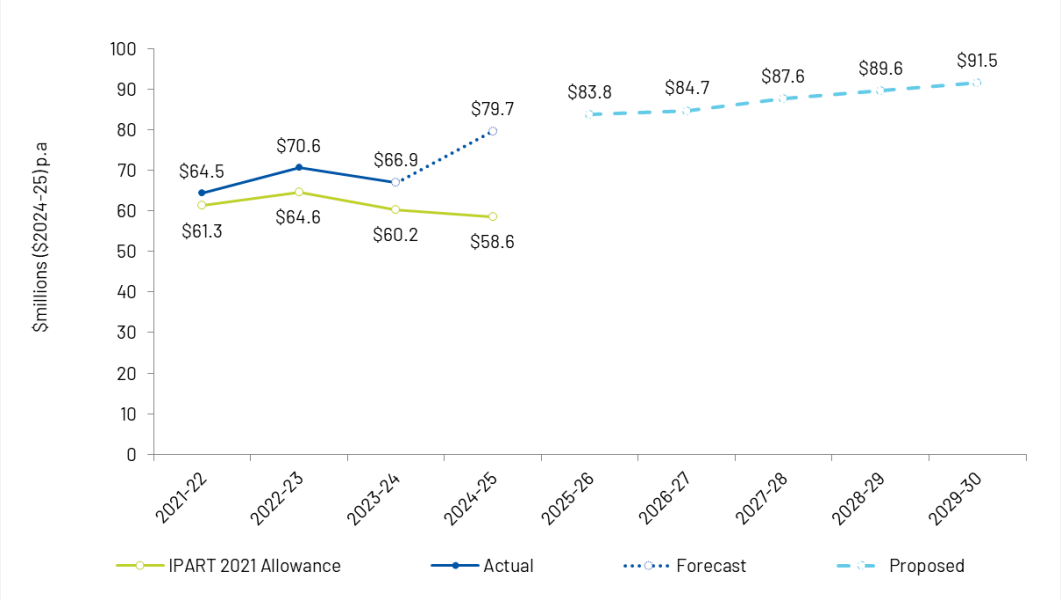
WaterNSW has proposed a total step change opex of $8.4 million for Greater Sydney. Overhead allocation adjustment and other step changes are the main drivers of total step change opex profile.

8 Rural Valleys

8.1 Proposed operating expenditure – Rural Valleys

Our proposed Base Trend Step operating expenditure forecast for the 2025 determination for the Rural Valleys in aggregate is summarised in Figure **7** and **Error! Reference source not found.**Table **14** below.

Figure 7 – Actual, allowed and forecast opex for Rural Valleys ($million, $2024-25)



** Excluding Non-urban metering or costs relating to fee for services.*

WaterNSW's proposed Rural Valleys operating expenditure forecast for the 2025 Determination period is **$437.2 million** in total over the five years.

Our proposed Rural Valleys operating expenditure ranges from **$83.8** million in 2025-26 to **$91.5** million in 2029-30 ($2024-25). The proposed average annual operating expenditure of $87.4 million is $26.3 million per annum, or 42.9% higher than the average annual amount of $61.2 million from the 2021 Determination ($2024-25).

Table 14 – Base-Step-Trend calculation for Rural Valleys ($million, $2024-25)

	2022-23	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Base	$66.0	$66.0	$66.0	$66.0	$66.0	$66.0	$330.1
Base Adjustment	$12.2	$12.2	$12.2	$12.2	$12.2	$12.2	$61.0
Adjusted Base	$78.2	$78.2	$78.2	$78.2	$78.2	$78.2	$391.1
Trend		$0.8	$1.0	$1.4	$1.9	$2.0	$6.9
Step		$4.8	$5.5	$8.1	$9.5	$11.3	$39.2
Total Opex		$83.8	$84.7	$87.6	$89.6	$91.5	$437.2

8.1.1 Base year adjustments

Table 15 – Summary of base year adjustments for Rural Valleys ($millions, $2024-25)

	Building Block of the Total Adjusted Base
Base – 2022-23	$66.0
Cost Escalation Factors and Provisions	**$11.0**
Employee and Contract Labour Costs	$3.1
Superannuation Obligations	$0.2
Long Service Leave and Annual Leave	$0.5
Insurance Premiums	$0.2
Land Tax	$3.3
Digital Related Costs	$3.6
Operating Model Related Cost Changes	**$6.5**
Efficiency Improvements – Cost Transformation Program	**-$0.8**
Overhead Allocation Adjustment	**-$5.6**
Ongoing Compliance Obligation Costs	**$0.8**
Cold Water Pollution Strategy	$0.8
Flood Modelling	$0.0
Non-Recurrent Expenses	**$0.3**
Flood Related Costs	-$0.5
Regulatory Submission Costs	$0.8
Total Adjusted Base – 2024-25	**$78.2**

We have explained the details related to the drivers of total base year adjustments for WaterNSW in Section 5.2. For this section, we will focus on the main differences between proposed adjustments for Rural Valleys and the other two determination (Greater Sydney and WAMC). Rural Valleys determination is the only determination that proposes a base year adjustment for cold water pollution strategy of $0.8 million.

8.1.2 Trend assessment

Table 16 – Rural Valleys opex forecast trend ($millions, $2024-25)

Trend change	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Labour	$0.4	$0.8	$1.2	$1.6	$2.0	$6.0
Insurance	$0.3	$0.6	$0.7	$0.8	$0.9	$3.4
Land tax valuation	$0.4	$0.9	$1.4	$2.0	$2.5	$7.2
Efficiency Improvements – Cost Transformation Program	$(0.8)	$(1.6)	$(2.5)	$(3.4)	$(3.5)	$(11.9)
Digital	$0.4	$0.4	$0.6	$0.9	$0.0	$2.2
Total Trend Change	**$0.8**	**$1.0**	**$1.4**	**$1.9**	**$2.0**	**$6.9**

WaterNSW has proposed a total trend opex of $6.9 million for Rural Valleys. The main drivers of increases in trend opex between 2025-26 and 2028-29 come from increases in labour costs, land tax costs and digital costs. Slower growth for total trend opex in 2029-30 is due to a decrease in digital costs.

8.1.3 Step change assessment

Table 17 – Rural Valleys opex forecast step change ($millions, $2024-25)

Step Change	2025-26	2026-27	2027-28	2028-29	2029-30
New Operating Licence conditions	$0.8	$3.7	$5.1	$5.1	$5.1
Compliance Uplift with Existing Regulatory Requirements	$5.3	$5.2	$5.1	$5.6	$5.9
New Regulatory Requirements	$0.4	$0.4	$0.4	$0.4	$0.4
Regulatory Submission Costs	$(0.7)	$(0.6)	$0.0	$0.3	$(0.4)
CSO / Grant Expiry	$1.2	$1.2	$1.2	$1.3	$1.3
New Recurrent Controllable Opex Resulting from New Capex	$0.9	$1.0	$0.9	$1.2	$0.8
Overhead Allocation Adjustment	$(3.2)	$(5.5)	$(4.7)	$(4.2)	$(1.7)
Water Licence Fees	$0.0	$0.0	$0.0	$0.0	$0.0
Total Step Change	**$4.8**	**$5.5**	**$8.0**	**$9.5**	**$11.3**

WaterNSW has proposed a total step change opex of $39.2 million for Rural Valleys. This is to ensure that WaterNSW could meet its new operating licence conditions and existing regulatory requirements, and deliver on its regulatory submission, which ensures proposed investments from WaterNSW are aligned with customers' priorities. In addition, overhead allocation adjustment is another driver of the profile.

9 WAMC

WAMC activities and their associated costs are only discussed in this bulk water pricing proposal where WaterNSW provides rural bulk water and WAMC services. We have presented our proposed operating and capital expenditure forecasts and our revenue requirements starting with a combined view of our Greater Sydney, Rural Valleys and WAMC services (WaterNSW portion only). This is to provide the reader with a view of our overarching activities and costs, which in several cases also include WAMC. Activities and functions that span across bulk water and WAMC services include our:

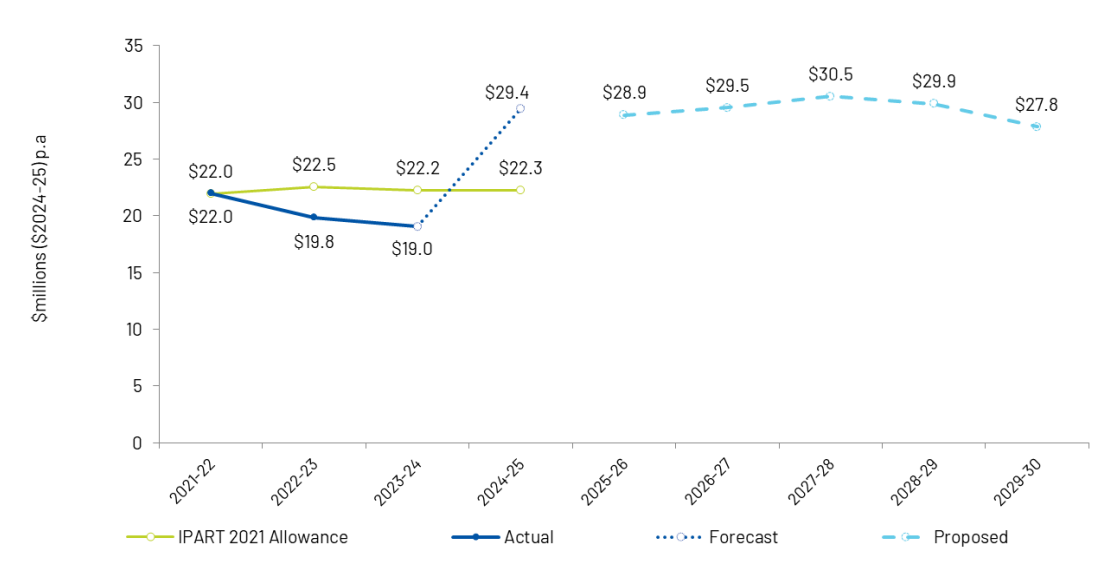
- cost allocation methodology which spans all of our regulated and non-regulated activities
- capital expenditure program
- operating expenditure program (for example, water monitoring and a portion of our support costs)
- cost transformation initiatives and proposed efficiencies.

We manage our costs via a 'whole of business' approach to deliver value to customers. Therefore, including WAMC services and costs in this bulk water pricing proposal provides visibility of how we manage our costs and activities to deliver our services.

9.1 Proposed operating expenditure – WAMC

Our proposed Base Trend Step operating expenditure forecast for the 2025 determination for the WAMC in aggregate is summarised in Figure **8** and Table **18** below.

Figure 8 – Actual, allowed and forecast opex for WAMC ($m, $2024-25)



** Excluding Non-urban metering or costs relating to fee for services.*

Table 18 – Base-Step-Trend calculation for WAMC ($million, $2024-25)

	2022-23	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Base	$18.6	$18.6	$18.6	$18.6	$18.6	$18.6	$92.8
Base Adjustment	$9.3	$9.3	$9.3	$9.3	$9.3	$9.3	$46.3
Adjusted Base	$27.8	$27.8	$27.8	$27.8	$27.8	$27.8	$139.0
Trend		$0.0	$(0.1)	$0.0	$0.4	$0.6	$0.8
Step		$1.0	$1.8	$2.8	$1.7	$(0.6)	$6.8
Total Opex		**$28.9**	**$29.5**	**$30.5**	**$29.8**	**$27.8**	**$146.6**

9.1.1 Base year adjustments

Table 19 – Summary of base year adjustments for WAMC ($millions, $2024-25)

	Building Block of the Total Adjusted Base
Base – 2022-23	$18.6
Cost Escalation Factors and Provisions	**$4.8**
Employee and Contract Labour Costs	$1.8
Superannuation Obligations	$0.1
Long Service Leave and Annual Leave	$0.2
Insurance Premiums	$0.0
Land Tax	$1.3
Digital Related Costs	$1.5
Operating Model Related Cost Changes	**$6.2**
Efficiency Improvements – Cost Transformation Program	**-$0.5**
Overhead Allocation Adjustment	**-$1.7**
Ongoing Compliance Obligation Costs	**$0.0**
Cold Water Pollution Strategy	$0.0
Flood Modelling	$0.0
Non-Recurrent Expenses	**$0.4**
Flood Related Costs	-$0.2
Regulatory Submission Costs	$0.6
Total Adjusted Base – 2024-25	**$27.8**

9.1.2 Trend assessment

Table 20 – WAMC opex forecast trend ($millions, $2024-25)

Trend change	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Labour	$0.2	$0.5	$0.7	$1.0	$1.2	$3.6
Insurance	$0.0	$0.0	$0.0	$0.0	$0.0	$0.1
Land tax	$0.1	$0.2	$0.4	$0.5	$0.6	$1.8
Efficiency savings	$(0.5)	$(1.0)	$(1.4)	$(1.5)	$(1.3)	$(5.6)
Digital	$0.2	$0.2	$0.2	$0.4	$0.0	$0.9
Total Trend Change	**$0.0**	**$(0.1)**	**$0.0**	**$0.4**	**$0.6**	**$0.8**

WaterNSW has proposed a total trend opex of $0.8 million for WAMC. The main drivers of increases in trend opex are labour costs, land tax costs and digital costs. These increases are expected to reduce by efficiency improvements from the cost transformation program.

9.1.3 Step change assessment

Table 21 – WAMC opex forecast step change ($millions, $2024-25)

Step Change	2025-26	2026-27	2027-28	2028-29	2029-30
New Operating Licence conditions	$0.0	$0.0	$0.0	$0.0	$0.0
Compliance Uplift with Existing Regulatory Requirements	$0.0	$0.0	$0.0	$0.0	$0.0
New Regulatory Requirements	$0.0	$0.0	$0.0	$0.0	$0.0
Regulatory Submission Costs	$(0.5)	$(0.4)	$0.0	$0.1	$(0.4)
CSO / Grant Expiry	$0.3	$1.2	$1.6	$1.1	$0.6
New Recurrent Controllable Opex Resulting from New Capex	$0.4	$0.4	$0.4	$0.4	$0.4
Overhead Allocation Adjustment	$0.8	$0.7	$0.9	$0.2	-$1.1
Water Licence Fees	$0.0	$0.0	$0.0	$0.0	-$0.0
Total Step Change	**$1.0**	**$1.8**	**$2.8**	**$1.7**	**-$0.6**