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Attachment 10

Revenue requirement

30 September 2024

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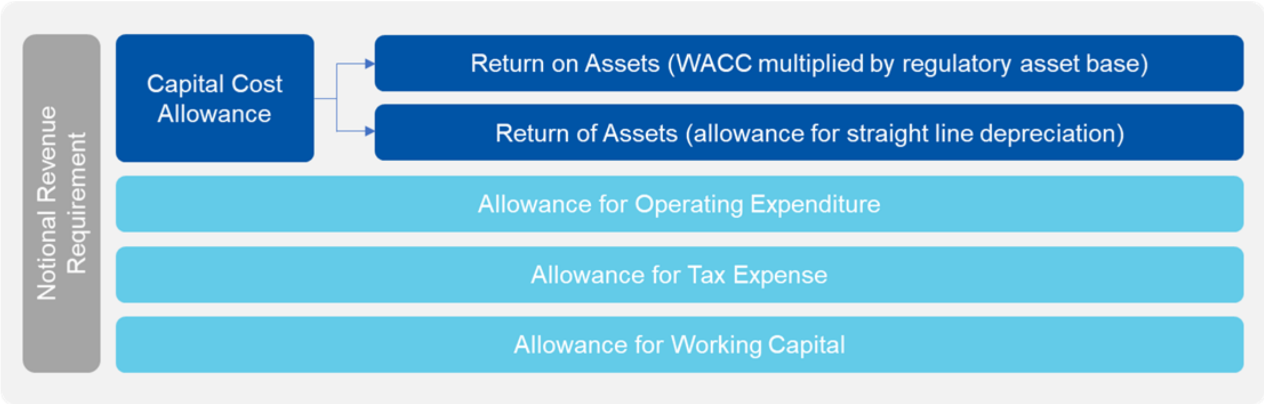
1. Introduction

WaterNSW proposes the continued use of the 'building block' approach to develop our target revenue allowance for regulated services in the Rural Valley and Greater Sydney Determination.

The total notional revenue requirement represents the efficient costs that can be recovered by WaterNSW for the provision of monopoly services. The revenue requirement proposed by WaterNSW is set at efficient levels to ensure that WaterNSW can meet its legislative and regulatory obligations as well as any service standards and customer driven discretionary requirements.

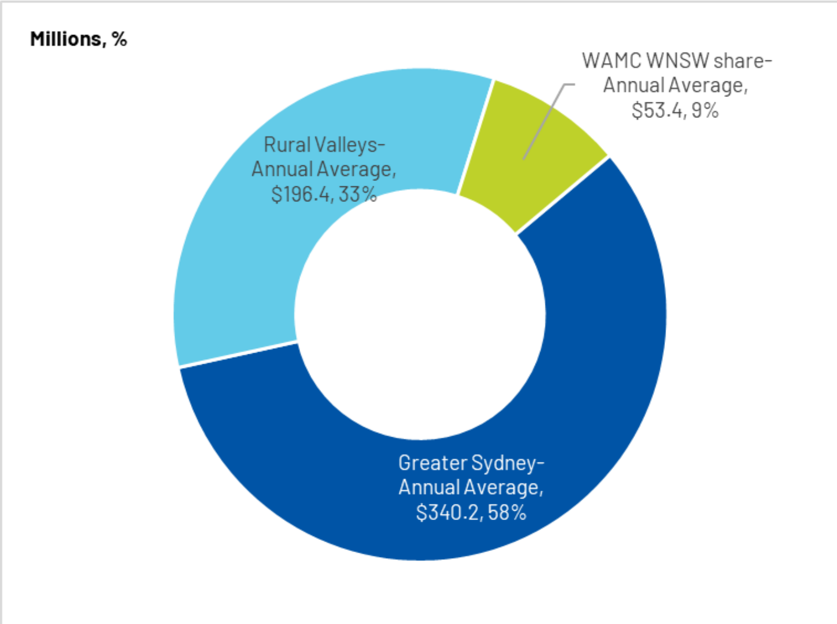
A diagram of the building block revenue requirement approach is shown in Figure 1 below:

Figure 1 – Building block approach



The building blocks form the regulated entity's cost base for pricing purposes. The sum of the building blocks is called the notional revenue requirement, which is used by IPART to construct prices. WaterNSW has forecast the revenue requirement by building block for the Rural Valley, Greater Sydney and the WAMC Determination as shown below:

Figure 2 – WaterNSW Annual Revenue Requirement by determination and in total ($2024-25)



Details on the WAMC Determination revenue requirement can be found in the WAMC Pricing Proposal. This section outlines the forecast revenue requirement for the Rural Valley and Greater Sydney Determinations.

To apply the building block approach, WaterNSW has proposed revenue that it would require in each year of the regulatory period, based on the following building blocks:

- The revenue required for **operating expenditure** over the period. This amount represents our estimate of forecast efficient operating, maintenance and administration costs;
- An allowance for a **return on the assets** used to provide the regulated services. This amount represents our forecast of the funding cost of the capital invested in WaterNSW by its owner and debt providers to ensure that it can continue to make efficient investments in capital in the future. The return on capital is calculated by multiplying an inflation indexed RAB by a rate of return on capital that excluded the impact of inflation, or a 'real' framework;
- An allowance for a **return of assets (depreciation)**. This amount represents the payment of the initial capital outlay over the useful life of the asset, and recognises that through the provision of services to customers, a water utility's capital infrastructure will wear out over time and therefore revenue is required to recover the cost of maintaining the RAB;
- An allowance for meeting **tax obligations**. IPART adopts a post-tax real WACC and calculated WaterNSW's tax liability as a separate cost building block to estimate the tax liability for regulated services; and
- An allowance for **working capital**. This allowance represents the holding cost of net current assets, such as receivables and payables.

The following Table 1 outlines where in the pricing proposal each element of the notional revenue requirement is located below.

Table 1 – Building Blocks Description

Building Block	Description	Section of the Pricing Proposal
Return on Assets	Return on assets which is calculated by multiplying the value of the assets (the 'Regulated Asset Base' or (RAB)) by the Weighted Average Return on Capital (WACC)	The RAB is discussed in attachment 19, including the capital expenditure assumptions. This section also discusses the annuities approach used to compute the capital cost for the offtake assets. The WACC is discussed in attachment 19.
Return of Assets	Return of assets, also known as the regulatory depreciation allowance, is calculated by dividing the value of the RAB by the useful life of the assets	Depreciation and asset lives are discussed in attachment 19
Operating Expenditure	The operating expenditure allowance consists of a base-step-trend forecast of the operating expenditure needs of the WaterNSW Business (Greater Sydney and the Rural Valleys).	Operating expenditure is discussed in attachment 8.
Tax Allowance	The regulatory tax allowance is an estimate of the WaterNSW tax liability in the provision of regulated services in the Rural Valleys and the Greater Sydney Region, calculated in accordance with IPART's decision on the Incorporation of Company Tax in Pricing Decisions	The tax allowance is discussed in attachment 20.
Working Capital allowance	The working capital allowance, is a nominal amount which compensates WaterNSW for the liability that arises due to the timing differences between accounts payable and accounts receivable	The working capital allowance is discussed in attachment 20.
Prices	Individual prices and tariffs to recover the notional revenue requirement, including specific charges for each Rural Valley / Region under the Rural Valley Determination, and specific charges for large customers (i.e. currently Sydney Water), council customers, and raw and unfiltered minor customers under the Greater Sydney Determination.	The charges are discussed in attachment 21.

2. Revenue requirement – Greater Sydney

2.1 Revenue over the 2026-30 Determination period – Greater Sydney

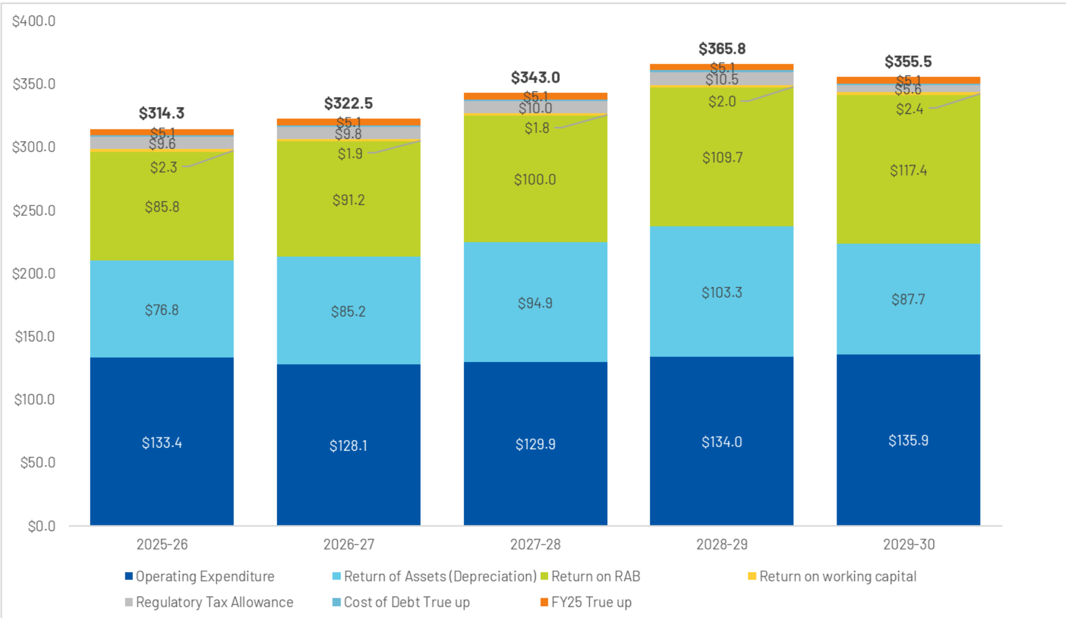
WaterNSW is proposing a total revenue requirement of $1.701 billion over the 5-year regulatory period, or an average annual revenue requirement of around $340.2 million per annum. In real terms, the average annual revenue requirement is forecast to be 37.5% or $92.8 million per annum higher than the 2020-25 average annual revenue requirement. WaterNSW's proposed total revenue requirements for the 2025 Determination period for Greater Sydney are outlined in Table 2 and illustrated in Figure 3 Figure 1below:

Table 2 – Total revenue requirement ($millions, $2024-25) – Greater Sydney

	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-	Average
Operating Expenditure	$133.4	$128.1	$129.9	$134.0	$135.9	$661.3	$132.3
Return of Assets (Depreciation)	$76.8	$85.2	$94.9	$103.3	$87.7	$447.9	$89.6
Return on RAB	$85.8	$91.2	$100.0	$109.7	$117.4	$504.2	$100.8
Return on working capital	$2.3	$1.9	$1.8	$2.0	$2.4	$10.4	$2.1
Regulatory Tax Allowance	$9.6	$9.8	$10.0	$10.5	$5.6	$45.5	$9.1
Cost of Debt True up	$1.3	$1.3	$1.3	$1.3	$1.3	$6.6	$1.3
FY25 True up	$5.1	$5.1	$5.1	$5.1	$5.1	$25.3	$5.1
Total Revenue Requirement	**$314.3**	**$322.5**	**$343.0**	**$365.8**	**$355.5**	**$1,701.1**	**$340.2**
CSO - Recreational Land	$1.1	$1.1	$1.1	$1.1	$1.1	$5.4	$1.1

^ 2023-24 is the last year of the 2020 Determination period. * CSO excluded from total revenue requirement total above.
Source: WaterNSW analysis.

Figure 3 – Total revenue requirement ($millions, $2024-25) – Greater Sydney



Source: WaterNSW analysis

WaterNSW's revenue for our Greater Sydney regulated business is predominantly raised through water prices. In calculating the notional revenue requirement, we first deduct the revenue generated from other sources (e.g. rental), and then set water prices for our major services to raise the remaining amount of revenue.

We then estimate the 'target revenue' that is expected to be raised by WaterNSW through the charges set by IPART As there can be significant jumps or drops in the notional revenue requirement from one year to the next, we have proposed a smoothing profile to minimise price or revenue shocks for customers. We have proposed a smoothing profile of subsequent annual real price increase from 2025 to 2029-30 of 14% per annum.

This 'target revenue' is the same as the notional revenue requirement in net present value (NPV) terms over the determination period. Our proposed target revenue and a comparison to our proposed notional revenue requirement is shown in Table 1Table 3 for all Greater Sydney Customers, including Large Customers – currently Sydney Water, and council customers and minor customers.

Table 3– Proposed notional revenue requirement and target revenue ($millions, $2024-25) – Greater Sydney

	2025-26	2026-27	2027-28	2028-29	2029-30	Total	Average	NPV
Total revenue requirement	$314.3	$322.5	$343.0	$365.8	$355.5	$1,701.1	$340.2	$1,521.8
Less: Non Regulated Revenue	$0.04	$0.04	$0.04	$0.04	$0.04	$0.2	$0.04	$0.17
Notional revenue requirement	$314.3	$322.5	$342.9	$365.8	$355.4	$1,700.9	$340.2	$1,521.6
Target Revenue requirement	**$314.3**	**$322.5**	**$342.9**	**$365.8**	**$355.4**	**$1,700.9**	**$340.2**	**$1,521.6**
Target Revenue from Tariffs	**$256.1**	**$294.0**	**$338.0**	**$385.1**	**$442.5**	**$1,715.7**	**$343.1**	**$1,521.6**

Source: WaterNSW analysis

As illustrated in the Table above, our proposed target revenue to be recovered from prices provides a much smoother trajectory than the notional revenue requirement. This is expected to provide customers with greater pricing stability over the determination period.

2.2 Revenue over the 2020-24 Determination period – Greater Sydney

Table 4 compares the revenue set by IPART in the 2016-20 Determination with the expected actual revenues of WaterNSW over the period for all customers.

Table 4 – Comparison of allowed and actual revenues during the 2020-24 Determination period ($millions, $nominal)

Comparison of allowed and actuals revenue during the 2020-24 determination period ($millions $nominal)						
	2020-21	2021-22	2022-23	2023-24	Total	Average
Revenue in Current Determination	$196.3	$202.9	$219.0	$234.8	$852.9	$213.2
Actual/Forecast revenue	$197.9	$198.6	$206.4	$224.7	$827.5	$206.9
Variance ($)	**$1.6**	**-$4.3**	**-$12.6**	**-$10.1**	**-$25.4**	**-$6.3**
Variance (%)	**0.8%**	**-2.1%**	**-5.8%**	**-4.3%**	**-3.0%**	**-3.0%**

Source: WaterNSW analysis.

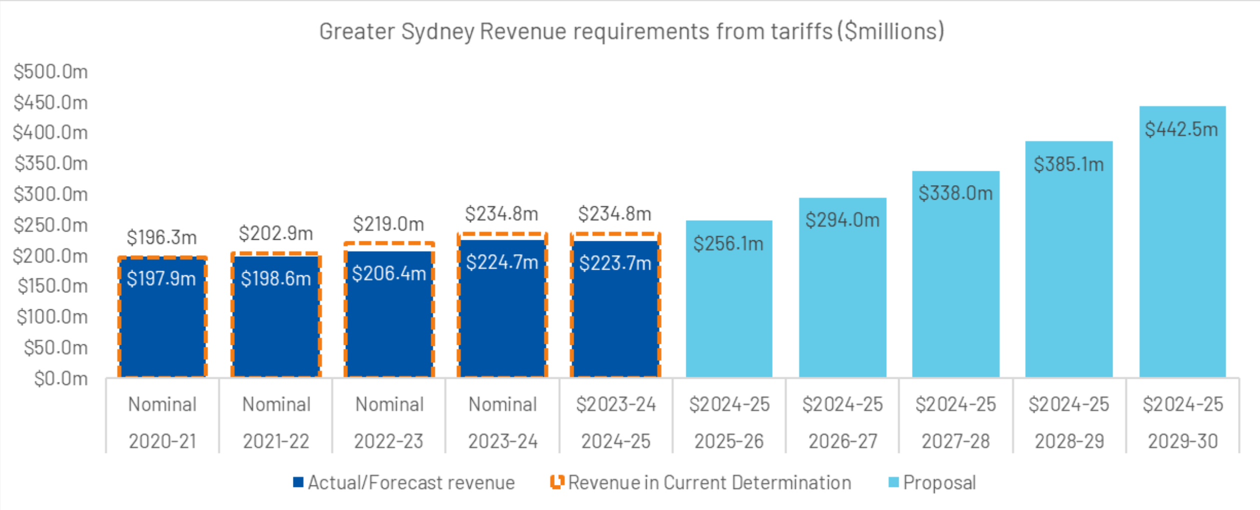
WaterNSW's revenue over the current period is expected to decline by 3.0% compared to the IPART forecast to 2024.The lower revenue outturn is triggered by lower demand from our largest customer, Sydney Water which is likely attributable to:

- increased sales from SDP to Sydney Water, displacing bulk water sales from WaterNSW
- forecasting error in the current period sales volumes.

2.3 Greater Sydney Revenue Requirement 2026-30 from the current period

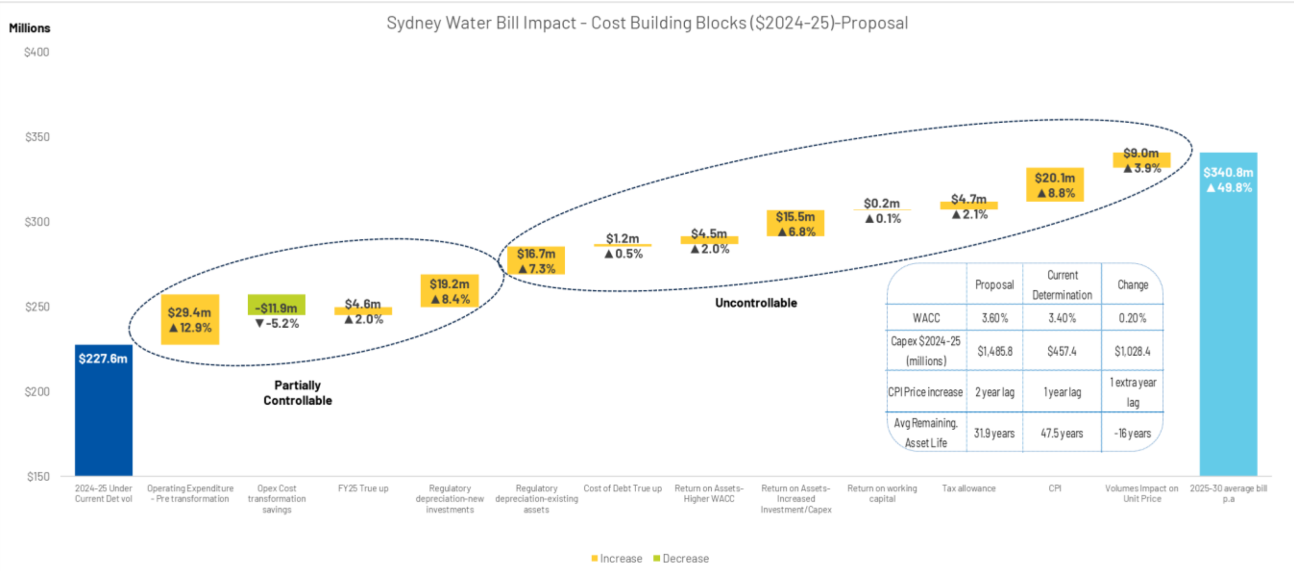
The figure below shows the trend towards an increasing total revenue requirement for Greater Sydney over the 2026-30 determination period (with the 15% per annum smoothing profile applied to forecast revenues). Forecast revenue from tariffs is expected to increase from $223.7m in 2024-25 to $442.4m in 2029-30

Figure 4 – Total revenue requirement from Tariffs ($millions, $2024-25) – Greater Sydney



For Sydney Water, the total revenue requirement is expected to increase by $49.8m from the current period 2024-25 bill of $226.m to the proposed average smoothed bill of $340.8m from 2026 to 2030 (in real terms). This is shown below by building block category.

Figure 5 – Total revenue requirement 2024-25 to 2025-30 ($millions, $2024-25) – Greater Sydney



	Proposal	Current Determination	Change
WACC	3.60%	3.40%	0.20%
Capex $2024-25 (millions)	$1,485.8	$457.4	$1,028.4
CPI Price increase	2 year lag	1 year lag	1 extra year lag
Avg Remaining. Asset Life	31.9 years	47.5 years	-16 years

As highlighted above, our proposed higher revenue requirement is primarily driven by the increasing costs of the Greater Sydney capital expenditure program and the increasing value of the Greater Sydney regulatory asset base. The key drivers include:

- WaterNSW is forecasting an increasing prudent and efficient capital expenditure program of $1,485.8 million over the 5-year regulatory period (or $297.2 million per annum on average). This equates to an average capital expenditure increase of around $180.7 million per annum compared to the current period allowance, and an increasing RAB of $2.3b in 2025-26 to $3.8b in 2029-30 in nominal terms;

- higher forecast WACC of 3.6% (+ 20 basis points from 3.4% real) results in a significant increase in the average annual return on asset by $22.6 million per annum; and

- the Greater Sydney capital expenditure program is attributed to shorter lived assets compared to the current period allowances, reducing the remaining average asset life from 47.5 years to 31.9 years, and increasing the average annual depreciation allowance by $40.5 million per annum

- WaterNSW is forecasting an increase in proposed average annual operating expenditure of $17.9 million per annum compared to the current determination allowances ($114.4 million per annum vs $132.3 million per annum), attributed to:

- Base-step trend increases as outlined In attachment 8; offset by
  - $11.9 million per annum of proposed savings, based on base year savings of $7.7 million for Greater Sydney and an efficiency target of 1% per annum cumulative savings against total operating expenditure; offset by

2.3.1 Greater Sydney Cost of Debt True up

A cost of debt true up of $1.3 million per annum has been estimated based on actual cost of debt rates to FY23 and the T-Corp risk free rate and credit spreads estimates for FY24/FY25. The risk-free rate is estimated to increase from 0.9% in 2021 to 2.9% in 2025, while the implied debt margin is forecast to decrease from 2.5% in 2021 to 2.3% in 2025. [1]

2.3.2 Greater Sydney 2024-25 True Up

As a result of the deferral of the commencement of the next determination period by one year, Greater Sydney prices were held constant from the 2023-24 to 2024-25. This occurred without any adjustment for the effects of inflation. WaterNSW's capital and operating expenditure allowances were not updated for the effects of inflation for 2024-25, an expenditure gap of approximately 2% per annum (the estimated rate of inflation for the March-to-March period with a 1-year lag).

In order to preserve the integrity of IPART's 'real' framework, the effects of inflation do need to be included in the Greater Sydney revenue requirement from 1 July 2025. We estimate that bulk water prices for the Greater Sydney metropolitan area will need to increase by an additional 2% to account for the effects of the deferral year.

We calculate a shortfall between revenue collected in 2024-25 based on 2023-24 constant prices and WaterNSW's operating and capital spend in 2024-25, to be $25.3 million in NPV terms, which we have included in the required revenues for Greater Sydney over the 2025 Determination period.

A 2024-25 True up of $5.1 million per annum has been estimated based on below assumptions:

- Assuming we have a one-year determination for 2024-25
- Post tax real WACC of 3.4% based on February 2024 WACC model
- Disposal of Desal planning costs in 2024-25
- Operating expenditure and capital expenditure forecast for 2024-25

[11] Current determination ends in 2023-24, cost of debt true up on 2024-25 is calculated on closing balance of 2023-24 only.

3. Revenue requirement – Rural Valleys

In this section we present our rural valley revenue requirements at cost reflective levels (CRBC) based on the traditional building block components and other charges excluding the impact of MDBA and BRC pass-through charges for the rural valleys. The revenue requirement is set out by:

- Total revenue requirement; and after the application of the IPART cost share framework;
- User revenue requirement; and
- Government revenue requirement.

We smoothed the user revenue requirement to forecast our expected revenue from tariffs. We then compare the cost reflective smoothed revenue requirement (annual average) to the 2024-25 revenue allowances set by IPART.

3.1 Base revenue requirement (Cost Reflective Base Case) – Rural Valleys

WaterNSW has calculated our proposed total revenue requirement as follows:

1. Calculate WaterNSW's proposed base revenue requirement is based on our proposed cost reflective operating (base-step-trend) and capital expenditure inputs;
2. Apply efficiencies over the 2025 determination period to ensure ongoing efficient costs, consistent with the IPART's 3Cs framework.
3. Apply the user / government share revenue allocation as per IPART 'impactor pays' methodology.

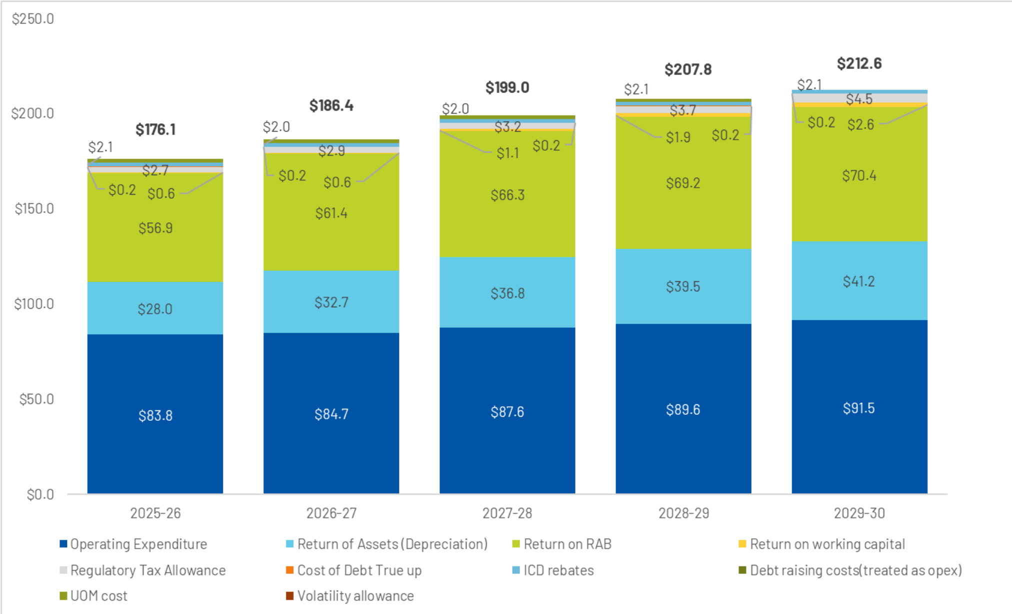
Our base revenue requirement for the rural valleys determination (user and government share) is shown in the table below by building block.

Table 5 – Total revenue requirement ($millions, $2024-25) – Rural Valleys

	2025-26	2026-27	2027-28	2028-29	2029-30	Total	Average	NPV
Operating Expenditure	$83.8	$84.7	$87.6	$89.6	$91.5	$437.2	$87.4	$353.8
Return of Assets (Depreciation)	$28.0	$32.7	$36.8	$39.5	$41.2	$178.2	$35.6	$92.2
Return on RAB	$56.9	$61.4	$66.3	$69.2	$70.4	$324.3	$64.9	$164.9
Return on working capital	$0.6	$0.6	$1.1	$1.9	$2.6	$6.8	$1.4	$3.5
Regulatory Tax Allowance	$2.7	$2.9	$3.2	$3.7	$4.5	$16.9	$3.4	$7.7
Cost of Debt True up	$0.2	$0.2	$0.2	$0.2	$0.2	$0.8	$0.2	$0.5
ICD rebates	$2.1	$2.0	$2.0	$2.1	$2.1	$10.2	$2.0	$9.0
Debt raising costs (treated as opex)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
UOM cost	$2.0	$1.9	$1.8	$1.8	$0.0	$7.4	$1.5	$6.8
Volatility allowance	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total Revenue Requirement	**$176.1**	**$186.4**	**$199.0**	**$207.8**	**$212.6**	**$981.9**	**$196.4**	**$638.4**

For the 2026-30 Determination period, WaterNSW is proposing a total revenue requirement for the Rural Valleys of $981.9 million over the 5-year regulatory period, or an average annual revenue requirement of around $196.4 million per annum. In real terms, the average annual revenue requirement is forecast to be 53.3% or $68.3 million per annum higher than the 2021-25 average annual revenue requirement

Figure 6 – Total revenue requirement ($millions, $2024-25) – Rural Valleys

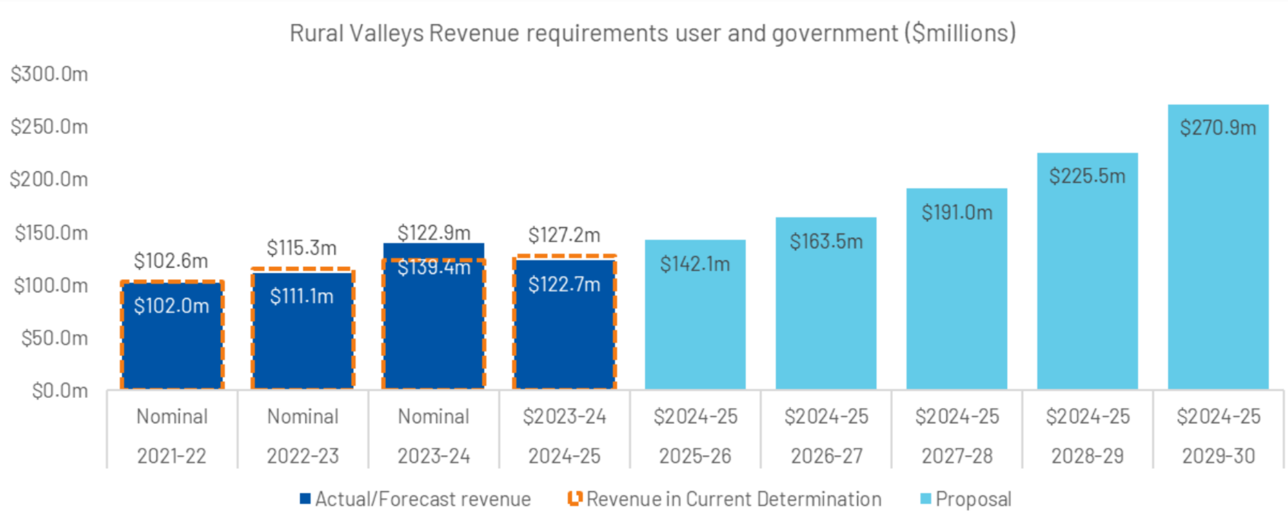


Source: WaterNSW analysis

3.1.1 Drivers in increase in total revenue requirement

The figure below shows the trend towards an increasing total revenue requirement for the Rural Valleys over the 2026-30 determination period. Forecast revenue requirement for the user and government share is expected to increase from $122.7m in 2024-25 to $270.9m in 2029-30

Figure 7 – Total revenue requirement user and government share ($millions) – Rural Valley



The higher revenue requirement for the rural valleys ($68.3 million per annum compared to the 2021-25 average annual revenue requirement) is driven by:

- the increasing Weighted Average Cost of Capital (WACC) of 4.3% (+250 basis points from 1.8% real – ACCC WACC), resulting in a significant increase in the average annual return on asset of $34.9 million per annum.

- $7.1 m per annum average increase in the depreciation allowance (sum of new and existing assets) due to higher proposed prudent and efficient capital expenditure and investment in new assets;
- A higher proposed prudent and efficient capital expenditure program of $553.1 million over the 5-year regulatory period (or $110.6 million per annum on average). This equates to an average capital expenditure reduction of around $19.3 million per annum compared to the current period allowance;
- $26.3 million per annum of proposed increases in rural valley operating expenditure mostly driven by:
  - Changes in our operating model and structure;
  - Increase regulatory requirements in our 2024 WaterNSW Operating Licence issued by IPART; and
  - Other specific asset requirements as specified in our base-step trend attachment; offset by
  - $10.9 million per annum in cost transformation savings.

Annualised step changes from the current to future period revenue requirement are shown below:

Figure 8 – Revenue requirement vs 2025 Determination – Rural Valleys ($2024-25)

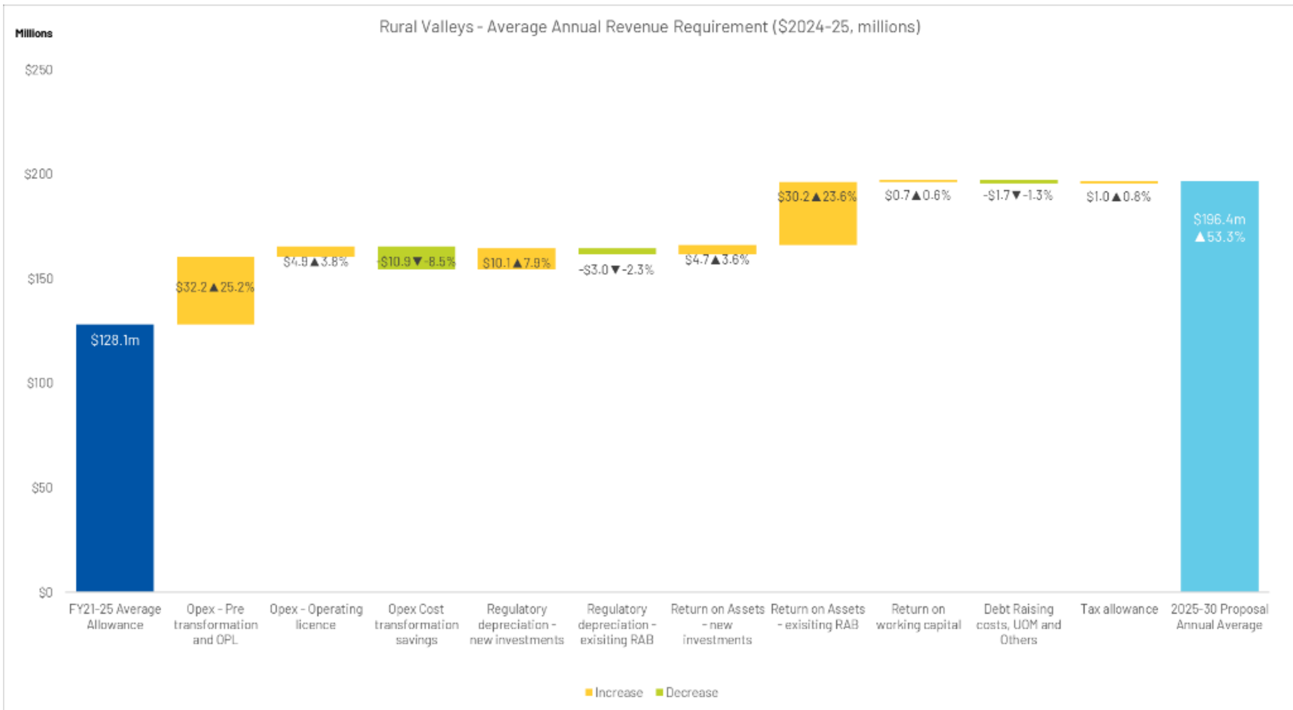
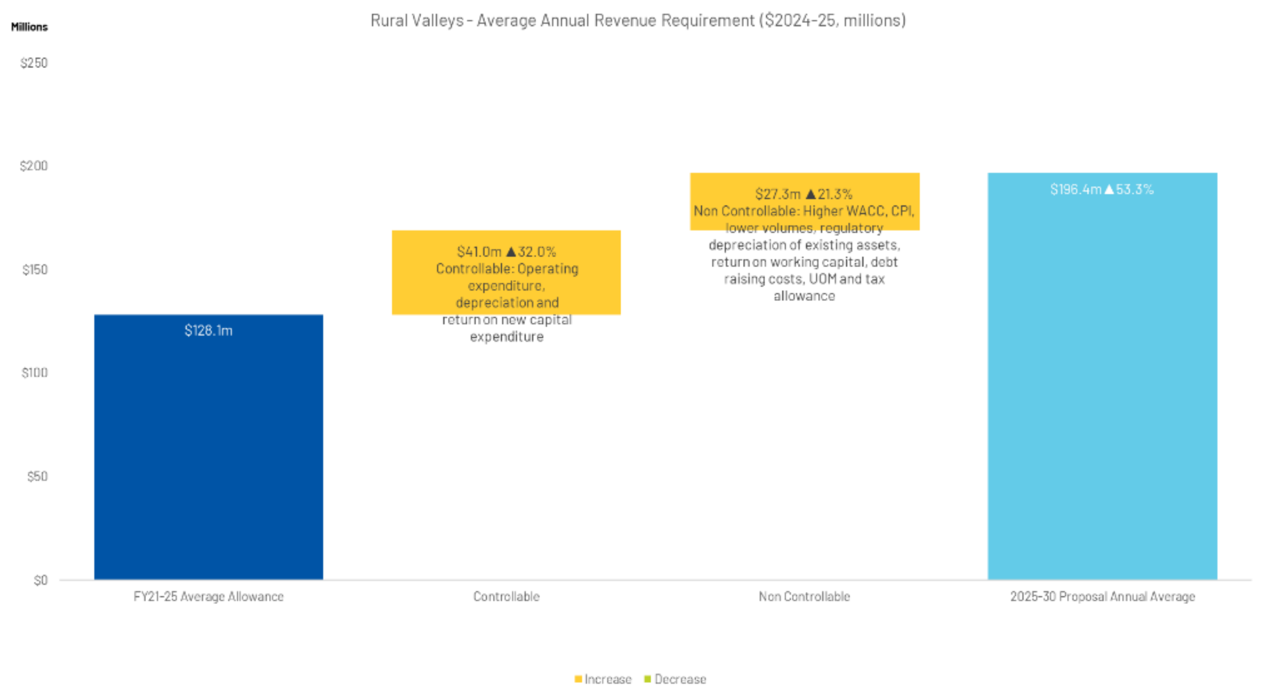


Figure 9 – Revenue requirement vs 2025 Determination by controllable and uncontrollable costs – Rural Valleys ($2024-25)



3.1.2 Revenue requirement by user

Once we apply the IPART cost share framework to derive an unsmoothed user revenue requirement, we smooth the user share revenue requirement to minimise price or revenue shocks for customers. We have proposed a smoothing profile of subsequent annual real price increase from 2025 to 2029-30 of 20% (excluding volume impact), ranging from 8% annualised increase in Fish River to 35% annualised increase in Peel valley and North Coast as shown in the table below.

Table 6 – Smoothed User Share Revenue requirement by valley ($000's $2024-25) – Rural Valleys

Smoothed User Share Revenue Requirement $000's $2024-25							
	Current Determination	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Annualised Increase**
	$2024-25	**$2024-25**	**$2024-25**	**$2024-25**	**$2024-25**	**$2024-25**	**%**
Border	$1,927	$2,215	$2,707	$3,308	$4,043	$4,942	21%
Gwydir	$7,418	$8,711	$10,923	$13,698	$17,180	$21,550	24%
Namoi	$8,328	$9,447	$11,487	$13,970	$16,995	$20,679	20%
Peel	$1,811	$2,458	$3,306	$4,449	$5,987	$8,060	35%
Lachlan	$11,032	$10,482	$14,110	$19,834	$27,897	$39,263	29%
Macquarie	$9,797	$10,618	$12,952	$15,816	$19,335	$23,664	19%
Murray	$7,842	$8,986	$10,650	$12,622	$14,959	$17,729	18%
Murrumbidgee	$14,840	$17,177	$20,447	$24,340	$28,975	$34,493	18%
Lowbidgee	$1,480	$1,800	$2,168	$2,611	$3,145	$3,788	21%
North Coast*	$1,551	$284	$634	$1,416	$3,162	$7,062	35%
Hunter	$6,902	$7,850	$9,191	$10,763	$12,605	$14,765	16%
South Coast *	$1,377	$688	$1,138	$1,880	$3,106	$5,132	30%
Fish River	$11,696	$12,261	$13,343	$14,529	$15,832	$17,262	8%
Revenue requirement - user share	**$86,000**	**$92,977**	**$113,055**	**$139,236**	**$173,221**	**$218,387**	**20%**

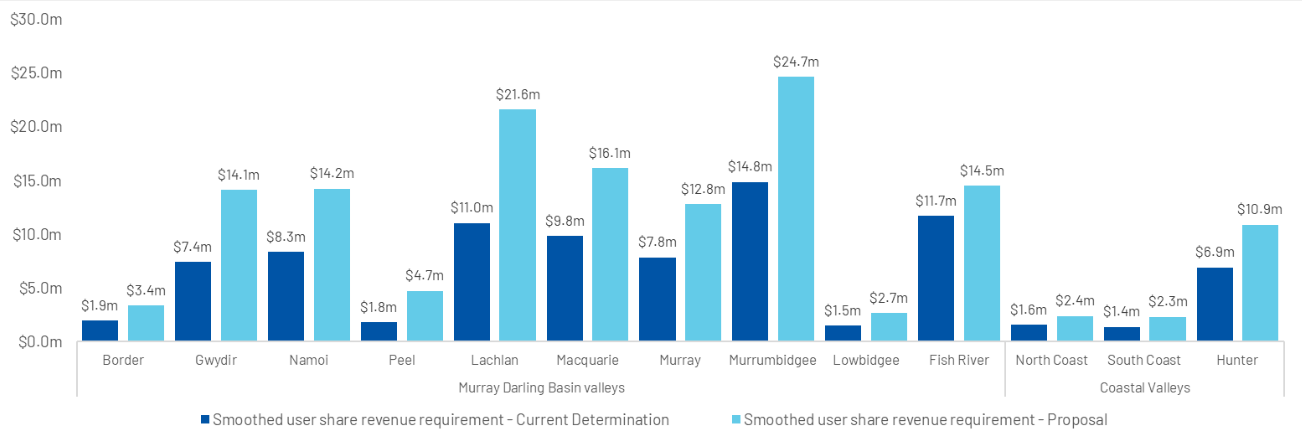
*note this is the cost reflective smoothed user revenue requirement for the North Coast and South Coast shown above for information only;

WaterNSW

we have capped prices in these valleys at current pricing levels under the CRBC.

A comparison of our smoothed cost reflective user revenue requirement against the revenue allowance set by IPART is shown in the figure below by valley. Large increases in smoothed revenue requirement are observed in the Gwydir, Macquarie, Lachlan and the Murrumbidgee.

Figure 10 – Comparison of smoothed user revenue by valley current determination against proposal ($millions, 2024-25)

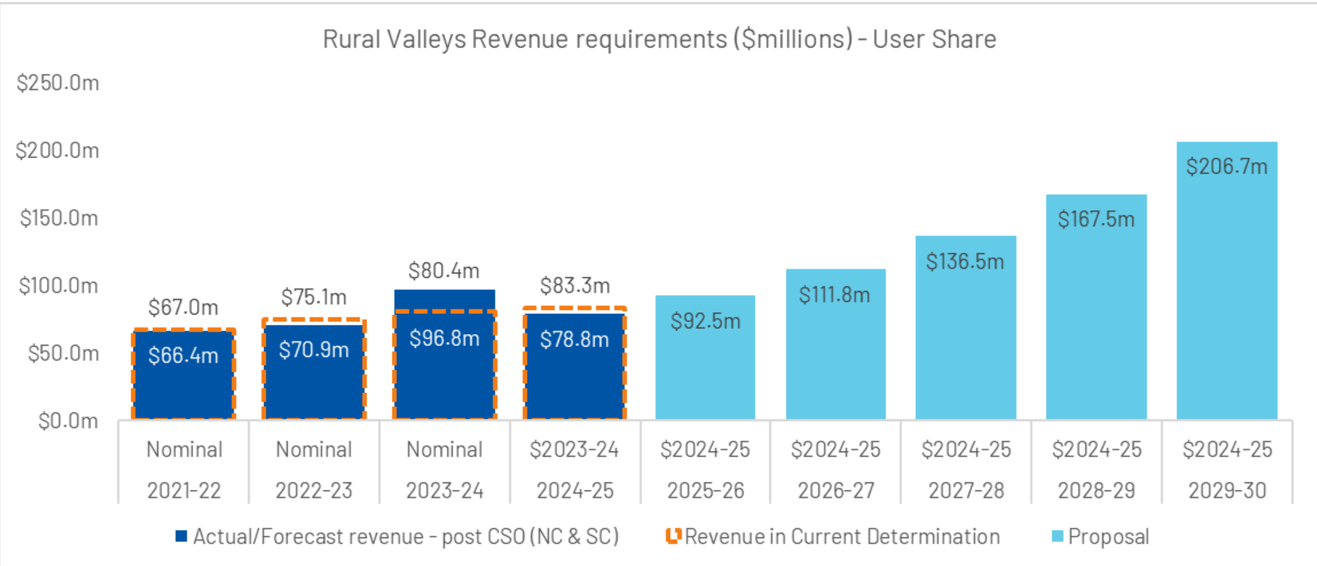


* Assumes Jun to Jun CPI for the current determination smoothed user share revenue requirement escalation.
* Note for the North and South Coast, we have shown the cost reflective smoothed user revenue requirement for the North Coast and South Coast for information only; we have capped prices in these valleys at current pricing levels under the CRBC.

3.1.3 Drivers in increase in total user share revenue requirement

WaterNSW notes an increasing trend towards costs being allocated to the User Revenue requirement over the upcoming determination period compared with the current period. As shown in the figure below, the user share revenue requirement is forecast to increase from $78.8m in 2024-25 to $206.7m in 2029-30.

Figure 11 – Rural Valleys revenue requirement – User Share

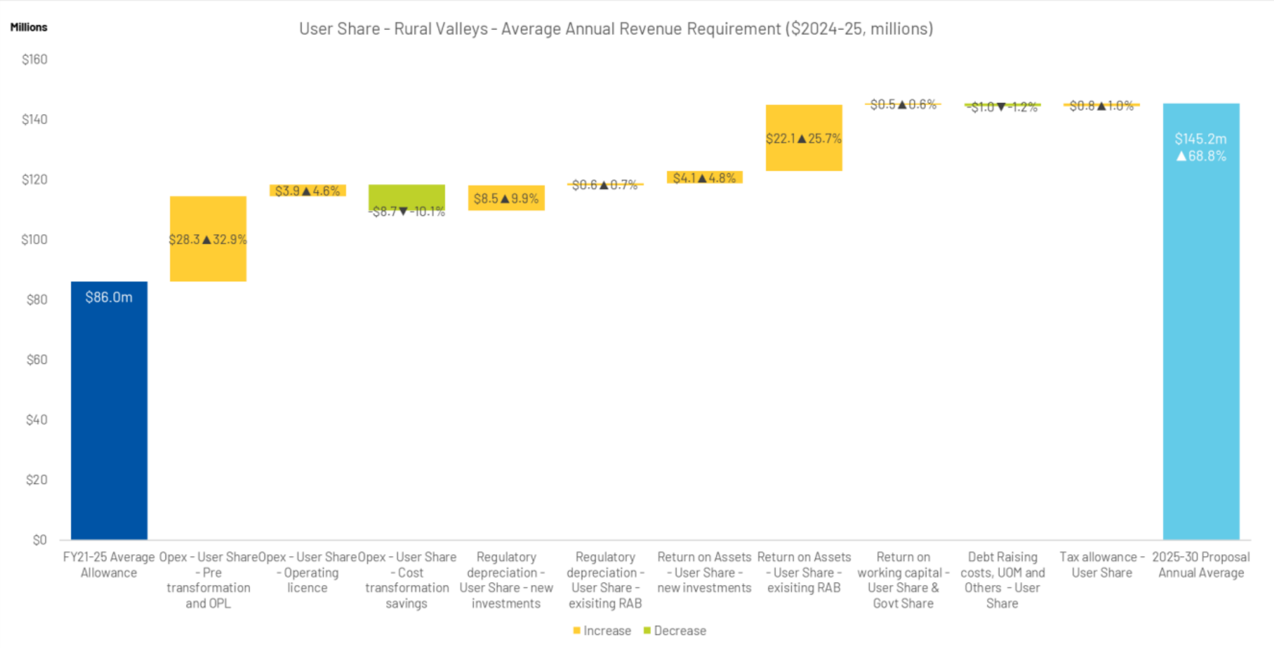


* This figure represents revenue from tariffs, which nets off existing CSO for North coast and South coast

As noted in section 3.1.1. above, the increase in the user share revenue requirement is driven by cost increases in operating (offset by cost transformation savings) and capital expenditure requirements, including higher depreciation allowance and return on assets (e.g. higher WACC under the IPART approach compared to the ACCC approach). In addition, the increase in user share revenue requirement is also influenced by the following factors:

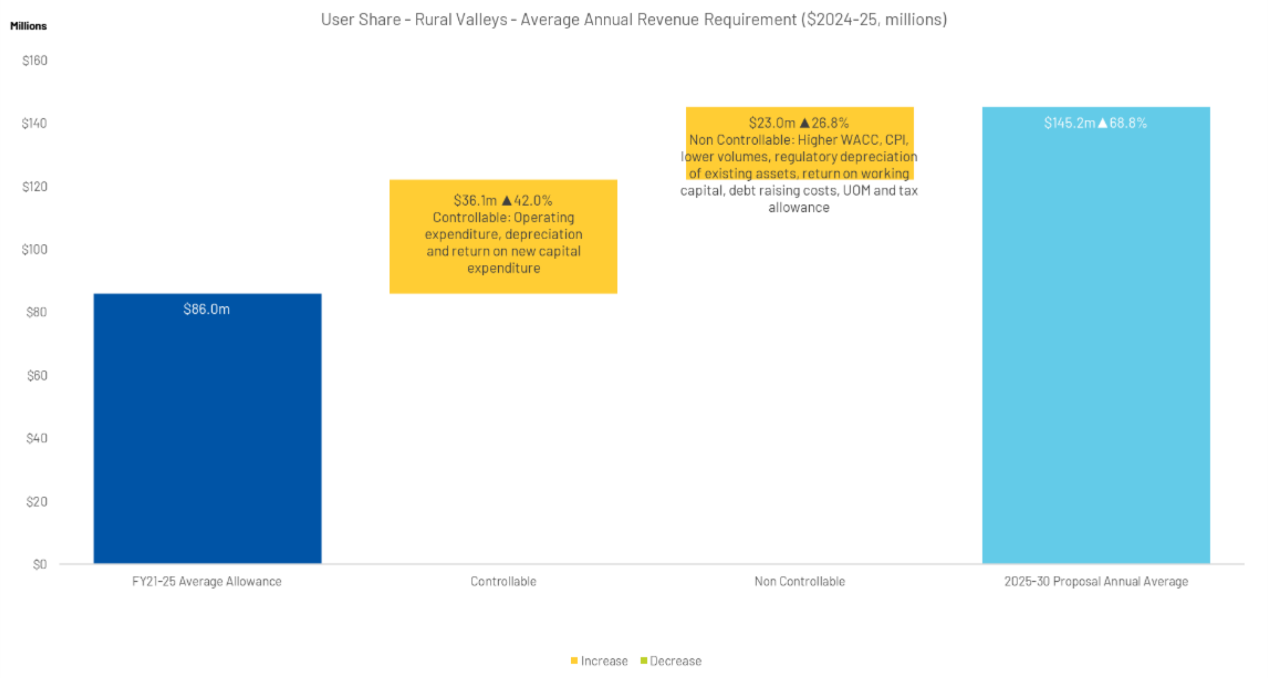
- Under the 2018 IPART Cost Share Review, IPART attributed 80% of the cost of environmental planning and protection expenditure as well as 80% of dam safety expenditure to the User Revenue Requirement.[2]
- The wind down of Government Funded Projects, such as drought capital expenditure (including disposal of drought capital expenditure to the Government) and higher levels of investment in user funded assets per the IPART Cost Shares Framework.

Figure 12 – Revenue requirement vs 2021 Determination – Rural Valleys ($2024-25) – User Share



[2] increasing the share from 50/50

Figure 13 – Revenue requirement vs 2021 Determination – Rural Valleys ($2024-25) – User Share



3.1.4 Revenue requirement by customer class CRBC

Under our CRBC, WaterNSW is proposing to set separate charges for Licensed Environmental Water (LEW) and Standard Water Use Customers. Licensed environmental water will be subject to a fully fixed charge, whereby Standard Water Use Customers will be subject to a 2-part fixed to variable pricing split. All supplementary water (including supplementary entitlements for licensed environmental purposes) will be subject to the variable charge only with the exception of the Lowbidgee in which all supplementary licences are subject to a fixed charge.

Table 7 sets out our proposed user share revenue requirement for the five-year 2025 determination period by valley and by customer class (licensed environmental water and 'Standard Water Use Customers). This is the revenue we propose to recover through regulated charges.

Table 7 – Smoothed User Share Revenue requirement by valley ($000, $2024-25) – Rural Valleys

Smoothed User Share Revenue Requirement by valley ($000, $2024-25)							
	2025-26	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Total**	**Average**
Border	$2,215	$2,707	$3,308	$4,043	$4,942	$17,215	$3,443
Gwydir	$8,711	$10,923	$13,698	$17,180	$21,550	$72,062	$14,412
Namoi	$9,447	$11,487	$13,970	$16,995	$20,679	$72,578	$14,516
Peel	$2,458	$3,306	$4,449	$5,987	$8,060	$24,260	$4,852
Lachlan	$10,482	$14,110	$19,834	$27,897	$39,263	$111,586	$22,317
Macquarie	$10,618	$12,952	$15,816	$19,335	$23,664	$82,385	$16,477
Murray	$8,986	$10,650	$12,622	$14,959	$17,729	$64,947	$12,989
Murrumbidgee	$17,177	$20,447	$24,340	$28,975	$34,493	$125,432	$25,086
Lowbidgee	$1,800	$2,168	$2,611	$3,145	$3,788	$13,510	$2,702
North Coast	$284	$634	$1,416	$3,162	$7,062	$12,557	$2,511
Hunter	$7,850	$9,191	$10,763	$12,605	$14,765	$55,174	$11,035

Smoothed User Share Revenue Requirement by valley ($000, $2024-25)							
	2025-26	2026-27	2027-28	2028-29	2029-30	Total	Average
South Coast	$688	$1,138	$1,880	$3,106	$5,132	$11,943	$2,389
Fish River	$12,261	$13,343	$14,529	$15,832	$17,262	$73,226	$14,645
Base user share	**$92,977**	**$113,055**	**$139,236**	**$173,221**	**$218,387**	**$736,876**	**$147,375**
of which							
Standard Water Use Customers	$81,128	$98,504	$121,209	$150,805	$190,401	$642,047	$128,409
Licensed Environmental Water (LEW) - 100% fixed	$11,849	$14,550	$18,026	$22,416	$27,986	$94,828	$18,966
Reallocation to Government share - Existing CSO (North Coast and South Coast)	$429	$1,228	$2,751	$5,723	$11,650	$21,781	$4,356
Total user share	**$92,549**	**$111,827**	**$136,484**	**$167,497**	**$206,737**	**$715,095**	**$143,019**

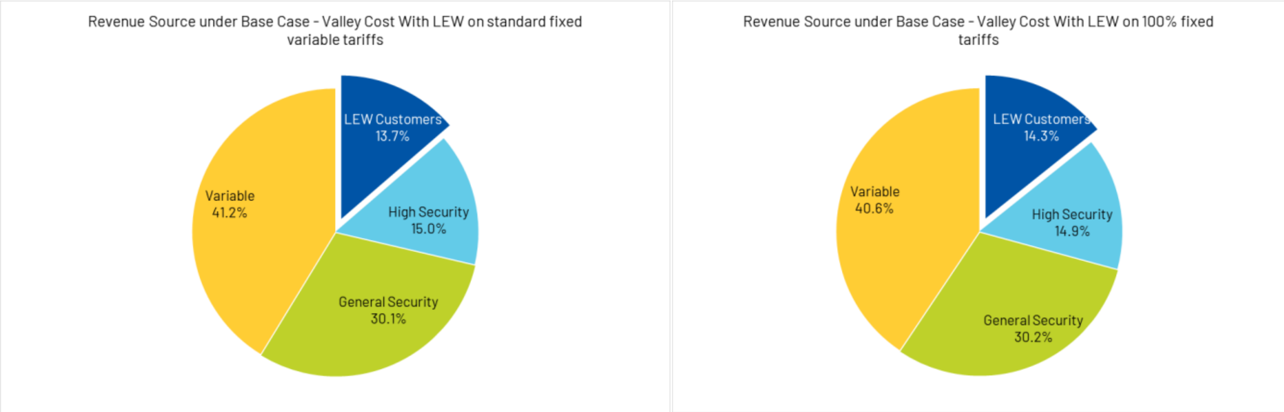
Note: this table excludes MDBA and BRC pass-through charges. Total user share here includes a CSO for North and South Coast which are not presented in figure 11 in the dark blue bar. In figure 15 this CSO is treated as government share.

Table 8 – User revenue requirement by customer class ($000, $2024-25)

Revenue Source under Base Case - Valley Based (User share) - Current Tariff							
	2025-26	2026-27	2027-28	2028-29	2029-30	Total	Average
Licensed environmental water (high and general security)	$11,220	$13,865	$17,232	$21,510	$26,974	$90,800	$18,160
High Security (Standard Water Use Customers)	$12,095	$14,675	$18,563	$23,643	$30,337	$99,313	$19,863
General Security (Standard Water Use Customers)	$23,376	$29,170	$36,881	$47,507	$62,848	$199,783	$39,957
Variable (Standard Water Use Customers, and supplementary water)	$34,026	$42,003	$52,030	$64,729	$80,966	$273,754	$54,751
Fish River customers	$12,261	$13,343	$14,529	$15,832	$17,262	$73,226	$14,645
Total revenue requirement - User share	**$92,977**	**$113,055**	**$139,236**	**$173,221**	**$218,387**	**$736,876**	**$147,375**

The impact of transitioning licensed Environmental Water onto fully fixed charges is shown below. Our user revenue source for licensed Environmental Water is expected to increase from 13.7% to 14.3% as a result in the change in tariff structure. This is due to the allocation of a percentage of the user share revenue requirement to the environment by pro rata entitlement and the funding certainty arising from the transition to a fully fixed charge as opposed to a fixed and variable charge for licensed environmental usage which is subject to forecasting error under the 20-year rolling average.

Figure 14 – Comparison of revenue source ($millions, $2024-25) – Rural Valleys



*LEW in the blue pie represents sum of fixed and variable revenue (excluding supplementary water, which is covered under the variable (yellow pie)

3.1.5 Revenue requirement by Government share

The Government revenue requirement portion is made up of the revenue requirement arising from the application of IPART's Government cost shares (impactor pays principle) and "CSO' payments for any portion of WaterNSW's efficient costs that we are not able to recover through our customer charges in the North Coast and South Coast valleys.

The return on capital represents the largest cost component of the Government revenue requirement. This is primarily driven by upgrades and enhancement to our assets to ensure that they comply with pre 1997 dam safety requirements and the higher WACC compared to the current period ACCC WACC framework.

The following table sets out our proposed Government share revenue requirement for the 2026-30 determination period.

Table 9 – Proposed Government share revenue requirement – ($000s, $2024-25)

Proposed Government share revenue requirement – ($000s, $2024-25)								
	2025-26	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Total**	**Average**	**NPV**
Border	$224	$236	$252	$270	$275	$1,257	$251	$1,104
Gwydir	$8,103	$8,228	$8,342	$8,506	$8,615	$41,793	$8,359	$36,854
Namoi	$13,642	$13,767	$13,922	$14,032	$14,019	$69,382	$13,876	$61,234
Peel	$4,620	$4,719	$4,801	$4,826	$4,817	$23,783	$4,757	$20,983
Lachlan	$6,428	$6,503	$6,681	$6,756	$6,808	$33,175	$6,635	$29,256
Macquarie	$5,006	$5,272	$5,544	$5,650	$5,689	$27,161	$5,432	$23,911
Murray	$1,639	$1,823	$2,010	$2,019	$2,029	$9,520	$1,904	$8,364
Murrumbidgee	$7,432	$7,621	$7,744	$7,768	$7,773	$38,338	$7,668	$33,824
Lowbidgee	$0	$0	$0	$0	$0	$0	$0	$0
North Coast	$312	$337	$358	$368	$362	$1,738	$348	$1,554
Hunter	$1,509	$1,657	$1,768	$1,813	$1,874	$8,621	$1,724	$7,703
South Coast	$208	$269	$298	$293	$295	$1,364	$273	$1,216
Fish River	$0	$0	$0	$0	$0	$0	$0	$0
Base government share	**$49,123**	**$50,432**	**$51,720**	**$52,300**	**$52,557**	**$256,132**	**$51,226**	**$226,005**

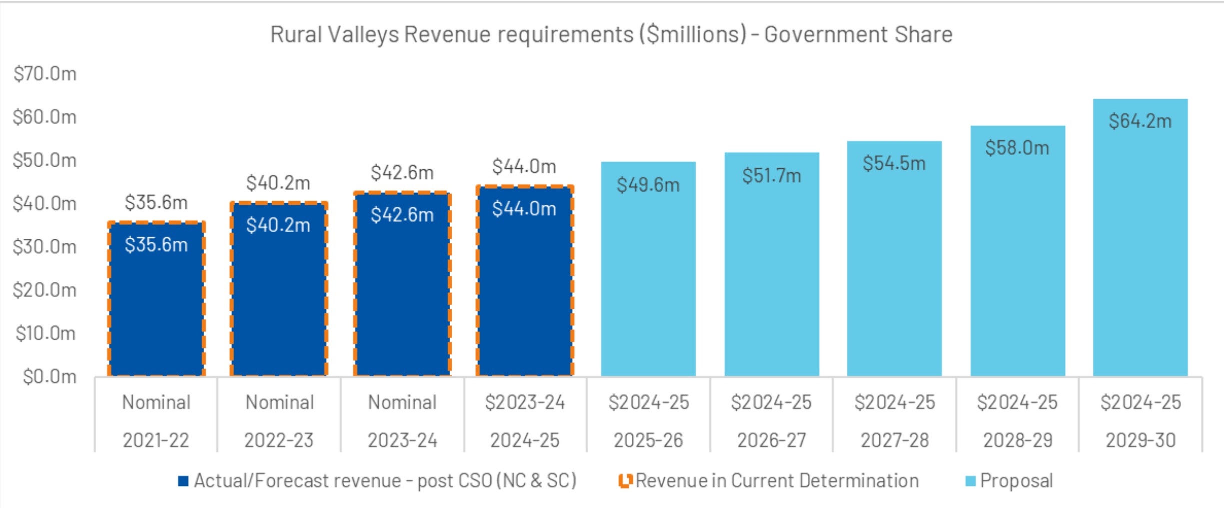
Proposed Government share revenue requirement – ($000s, $2024-25)								
	2025-26	2026-27	2027-28	2028-29	2029-30	Total	Average	NPV
Reallocation to Government share - Existing CSO (North Coast and South Coast)	$429	$1,228	$2,751	$5,723	$11,650	$21,781	$4,356	$18,496
Adjustment to cap prices - Standard Water Use Customers	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Adjustment to cap prices - Licensed Environmental Water (LEW)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total government share	**$49,551**	**$51,659**	**$54,471**	**$58,024**	**$64,207**	**$277,912**	**$55,582**	**$244,500**

*Note: this table excludes MDBA and BRC pass-through charges. Total user share includes a CSO for North and South Coast which are not presented. In the figure above this CSO is treated as government share.

3.1.6 Drivers in increase in total government share revenue requirement

The trend towards increasing government share over the upcoming 2026-30 determination period is shown below. Whilst there was expected to be a decline in the Government Share of revenue due to the disposal of drought capital expenditure projects from the RAB and government drought projects being discontinued (resulting in a reduction in the regulatory depreciation of existing Government RAB assets), the Government Share of revenue is expected to increase over the 2025-30 determination due to the application of the IPART WACC methodology (4.3% WACC, +250 basis points from 1.8% real – ACCC WACC) and higher capital expenditure requirements.

Figure 15 – Rural Valleys revenue requirement – Government Share



* This figure represents revenue from government, which includes existing CSO for North coast and South coast

Figure 16 – Revenue requirement vs 2020 Determination – Rural Valleys ($2024-25) – Govt Share

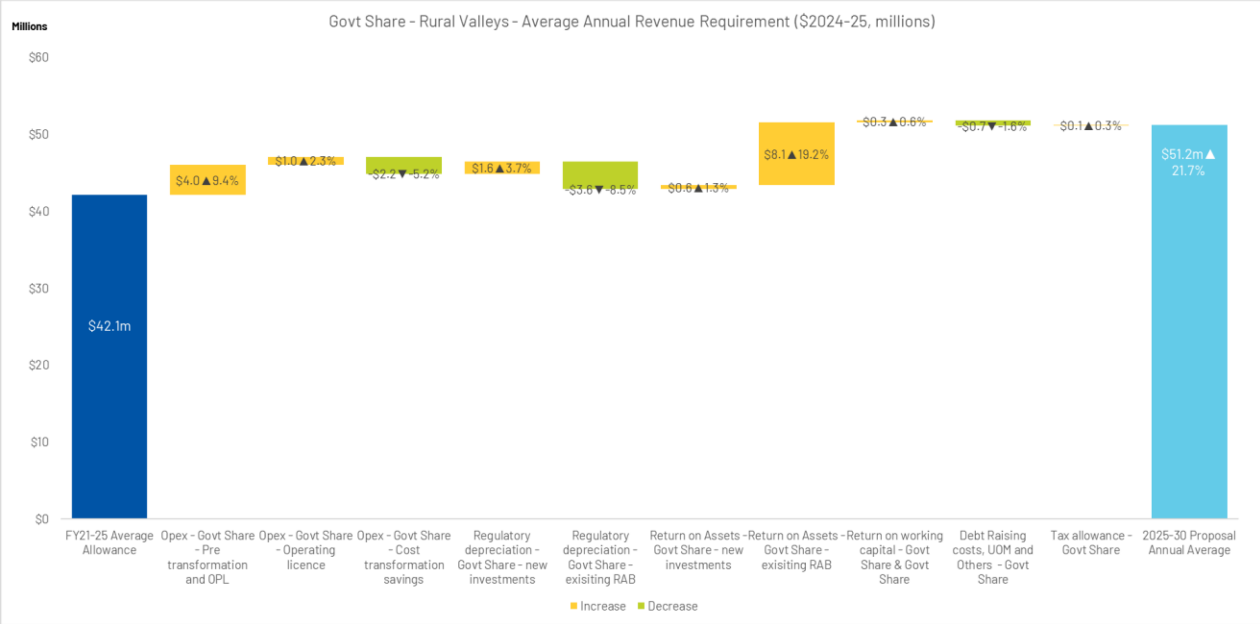


Figure 17 – Revenue requirement – Rural Valleys ($2024-25) – Govt Share

3.2 Revenue requirement Scenario 1 – Rural Valleys

The three alternative scenarios reflect reductions to our Cost Reflective Base Case and may, after further negotiation with IPART and the NSW Government, achieve a more appropriate balance between stakeholders.

The revenue requirement for each of the alternative scenarios is set out in the tables below.

Alternative scenario 1 includes:

- **A price ceiling of 15% per year** (plus inflation) to take account of affordability.
- **ICT asset lives extended from 7 to 10 years** to better reflect the expected life of our digital investments and thereby reducing short term pricing impacts for customers.
- **Reducing the user share for the Environmental and Planning and Dam Safety cost share categories to 50% (from 80%)** to reflect what we heard regarding the fairness and equity of customers funding certain policy-driven environmental investments plus other minor adjustments for dam flood mitigation in two valleys.
- This results in a **residual funding shortfall of $60 million** on the user share revenue requirement over five years compared to the Cost Reflective Base Case to manage the financial risk to WaterNSW of not receiving the required funding to meet customer statutory obligations.

Table 10 – User Share Revenue Requirement Alternative Scenario 1 ($millions, $real)

Smoothed User Share Revenue requirement by valley ($000's $2024-25) – Rural Valleys - Alternative 1								
	2025-26	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Total**	**Average**	**NPV**
Border	$2,207	$2,686	$3,269	$3,980	$4,847	$16,990	$3,398	$14,713
Gwydir	$8,580	$10,597	$13,090	$16,171	$19,979	$68,418	$13,684	$59,165
Namoi	$9,289	$11,106	$13,281	$15,887	$19,007	$68,570	$13,714	$59,484
Peel	$2,436	$3,248	$4,331	$5,777	$7,708	$23,501	$4,700	$20,175
Lachlan	$10,482	$13,922	$19,310	$26,800	$37,219	$107,732	$21,546	$92,203
Macquarie	$9,875	$11,204	$12,727	$14,475	$16,482	$64,763	$12,953	$56,465
Murray	$8,906	$10,461	$12,288	$14,433	$16,954	$63,043	$12,609	$54,787
Murrumbidgee	$17,098	$20,261	$24,008	$28,449	$33,711	$123,527	$24,705	$107,257
Lowbidgee	$1,788	$2,140	$2,561	$3,065	$3,669	$13,223	$2,645	$11,470
North Coast	$283	$630	$1,403	$3,125	$6,961	$12,403	$2,481	$10,513
Hunter	$7,541	$8,484	$9,545	$10,740	$12,086	$48,395	$9,679	$42,989
South Coast	$686	$1,130	$1,860	$3,063	$5,044	$11,784	$2,357	$10,159
Fish River	$12,215	$13,244	$14,369	$15,599	$16,945	$72,371	$14,474	$63,393
Base user share	**$91,388**	**$109,113**	**$132,043**	**$161,564**	**$200,612**	**$694,720**	**$138,944**	**$602,774**
of which								
Standard Water Use Customers	$80,394	$95,815	$115,853	$141,752	$176,235	$610,049	$122,010	$529,472
Licensed Environmental Water (LEW) existing Tariff	$10,994	$13,298	$16,190	$19,812	$24,377	$84,671	$16,934	$73,302
Reallocation to Government share - Existing CSO (North Coast and South Coast)	$425	$1,216	$2,720	$5,645	$11,461	$21,467	$4,293	$18,231
Adjustment to cap prices - Standard Water Use Customers	$733	$5,126	$11,610	$20,844	$33,827	$72,141	$14,428	$60,077
Adjustment to cap prices - Licensed Environmental Water (LEW)	$0	$0	$0	$0	$0	$0	$0	$0
Total user share	**$90,230**	**$102,771**	**$117,713**	**$135,075**	**$155,323**	**$601,112**	**$120,222**	**$524,466**
of which								
Standard Water Use Customers pay	$79,236	$89,473	$101,523	$115,263	$130,946	$516,441	$103,288	$451,164
Licensed Environmental Water (LEW) pay	$10,994	$13,298	$16,190	$19,812	$24,377	$84,671	$16,934	$73,302

Table 11 – Government Share Revenue Requirement Alternative Scenario 1 ($millions, $real)

Proposed Government share revenue requirement – ($000s, $2024-25) - Alternative 1								
	2025-26	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Total**	**Average**	**NPV**
Border	$245	$257	$273	$293	$300	$1,369	$274	$1,202
Gwydir	$8,307	$8,538	$8,757	$9,131	$9,402	$44,136	$8,827	$38,858
Namoi	$13,835	$14,062	$14,461	$14,754	$14,733	$71,846	$14,369	$63,345
Peel	$4,683	$4,778	$4,849	$4,866	$4,852	$24,027	$4,805	$21,202
Lachlan	$6,715	$6,989	$7,268	$7,341	$7,415	$35,727	$7,145	$31,476
Macquarie	$7,424	$8,190	$9,026	$9,241	$9,448	$43,330	$8,666	$38,040
Murray	$1,660	$1,981	$2,318	$2,321	$2,352	$10,631	$2,126	$9,312
Murrumbidgee	$7,531	$7,719	$7,877	$7,949	$7,982	$39,059	$7,812	$34,447
Lowbidgee	$0	$0	$0	$0	$0	$0	$0	$0
North Coast	$316	$339	$360	$370	$365	$1,751	$350	$1,566
Hunter	$2,517	$2,808	$3,027	$3,103	$3,237	$14,692	$2,938	$13,118
South Coast	$207	$266	$294	$288	$291	$1,347	$269	$1,202
Fish River	$0	$0	$0	$0	$0	$0	$0	$0
Base government share	**$53,442**	**$55,928**	**$58,509**	**$59,658**	**$60,377**	**$287,914**	**$57,583**	**$253,768**
Reallocation to Government share - Existing CSO (North Coast and South Coast)	$425	$1,216	$2,720	$5,645	$11,461	$21,467	$4,293	$18,231
Adjustment to cap prices - Standard Water Use Customers	$733	$5,126	$11,610	$20,844	$33,827	$72,141	$14,428	$60,077
Adjustment to cap prices - Licensed Environmental Water (LEW)	$0	$0	$0	$0	$0	$0	$0	$0
Total government share	**$54,600**	**$62,270**	**$72,839**	**$86,147**	**$105,666**	**$381,522**	**$76,304**	**$332,076**

Figure 18 – User Share Revenue Requirement Alternative Scenario 1 – Rural Valleys ($2024-25)

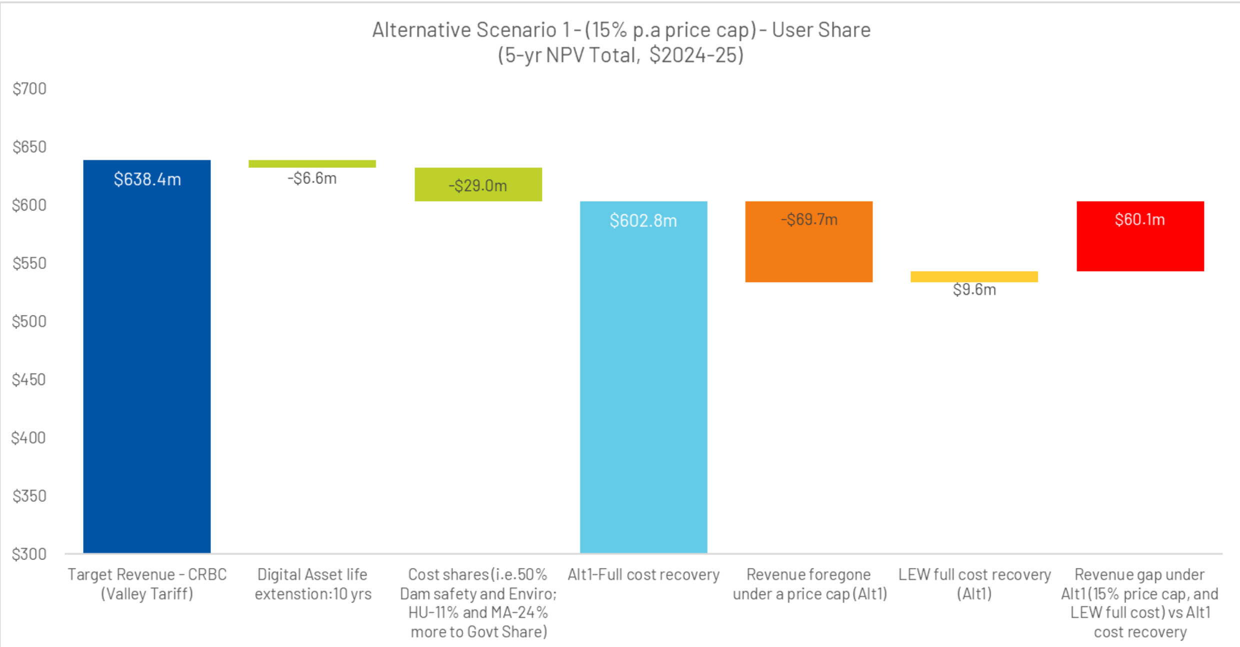
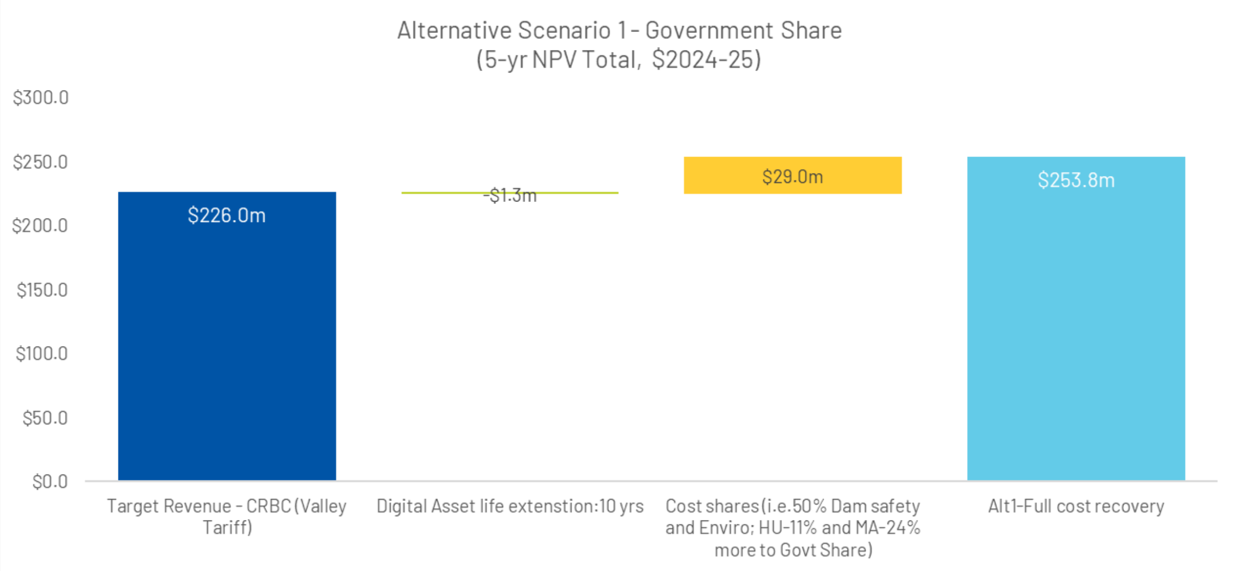


Figure 19 – Government Share Revenue Requirement Alternative Scenario 1 – Rural Valleys ($2024-25)



3.3 Revenue requirement Scenario 2 – Rural Valleys

Alternative Scenario 2 includes the following:

- **Alternative Scenario 1**, plus
- **Remove fish passages and Cold Water Pollution projects** – this takes into account the impact on capitalised overheads should the NSW Government decide not to proceed.
- This results in **a residual funding shortfall of $53.5 million** on the user share revenue requirement over five years compared to the Cost Reflective Base Case to manage the financial risk to WaterNSW of not receiving the required funding to meet customer statutory obligations. This is $6.6 million less over five years than Alternative Scenario 1 and might be attractive to Government as it would result in lower debt levels.

Table 12 – User Share Revenue Requirement Alternative Scenario 2 ($millions, $real)

Smoothed User Share Revenue requirement by valley ($000's $2024-25) – Rural Valleys - Alternative 2								
	2025-26	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Total**	**Average**	**NPV**
Border	$2,212	$2,698	$3,291	$4,016	$4,901	$17,118	$3,424	$14,821
Gwydir	$8,514	$10,436	$12,793	$15,683	$19,228	$66,653	$13,331	$57,682
Namoi	$9,175	$10,835	$12,799	$15,122	$17,870	$65,802	$13,160	$57,152
Peel	$2,439	$3,257	$4,349	$5,810	$7,762	$23,618	$4,724	$20,273
Lachlan	$10,482	$13,786	$18,936	$26,024	$35,790	$105,018	$21,004	$89,961
Macquarie	$9,689	$10,785	$12,021	$13,415	$14,990	$60,901	$12,180	$53,199
Murray	$8,909	$10,467	$12,298	$14,449	$16,977	$63,100	$12,620	$54,835
Murrumbidgee	$17,081	$20,219	$23,934	$28,332	$33,538	$123,103	$24,621	$106,899
Lowbidgee	$1,791	$2,146	$2,572	$3,083	$3,696	$13,288	$2,658	$11,525
North Coast	$283	$631	$1,407	$3,136	$6,991	$12,449	$2,490	$10,552
Hunter	$7,550	$8,502	$9,576	$10,786	$12,151	$48,564	$9,713	$43,135
South Coast	$687	$1,132	$1,865	$3,075	$5,068	$11,826	$2,365	$10,195
Fish River	$12,232	$13,279	$14,426	$15,682	$17,058	$72,676	$14,535	$63,652
Base user share	**$91,043**	**$108,175**	**$130,267**	**$158,612**	**$196,019**	**$684,117**	**$136,823**	**$593,881**

Smoothed User Share Revenue requirement by valley ($000's $2024-25) – Rural Valleys - Alternative 2								
	2025-26	2026-27	2027-28	2028-29	2029-30	Total	Average	NPV
of which								
Standard Water Use Customers	$80,106	$95,027	$114,359	$139,267	$172,367	$601,125	$120,225	$521,989
Licensed Environmental Water (LEW) existing Tariff	$10,938	$13,147	$15,908	$19,346	$23,653	$82,992	$16,598	$71,892
Reallocation to Government share - Existing CSO (North Coast and South Coast)	$426	$1,219	$2,729	$5,667	$11,515	$21,556	$4,311	$18,306
Adjustment to cap prices - Standard Water Use Customers	$501	$4,490	$10,333	$18,646	$30,311	$64,280	$12,856	$53,495
Adjustment to cap prices - Licensed Environmental Water (LEW)	$0	$0	$0	$0	$0	$0	$0	$0
Total user share	**$90,116**	**$102,466**	**$117,206**	**$134,300**	**$154,194**	**$598,281**	**$119,656**	**$522,080**
of which								
Standard Water Use Customers pay	$79,178	$89,318	$101,297	$114,954	$130,541	$515,289	$103,058	$450,188
Licensed Environmental Water (LEW) pay	$10,938	$13,147	$15,908	$19,346	$23,653	$82,992	$16,598	$71,892

Table 13 – Government Share Revenue Requirement Alternative Scenario 2 ($millions, $real)

Proposed Government share revenue requirement – ($000s, $2024-25) - Alternative 2								
	2025-26	2026-27	2027-28	2028-29	2029-30	Total	Average	NPV
Border	$247	$259	$275	$294	$301	$1,375	$275	$1,208
Gwydir	$8,285	$8,454	$8,519	$8,584	$8,600	$42,442	$8,488	$37,452
Namoi	$13,823	$13,898	$13,890	$13,861	$13,822	$69,295	$13,859	$61,205
Peel	$4,684	$4,779	$4,850	$4,867	$4,852	$24,033	$4,807	$21,207
Lachlan	$6,572	$6,515	$6,599	$6,653	$6,680	$33,018	$6,604	$29,147
Macquarie	$7,346	$7,818	$8,210	$8,084	$8,213	$39,672	$7,934	$34,949
Murray	$1,664	$1,988	$2,327	$2,328	$2,358	$10,665	$2,133	$9,342
Murrumbidgee	$7,536	$7,697	$7,792	$7,796	$7,798	$38,618	$7,724	$34,081
Lowbidgee	$0	$0	$0	$0	$0	$0	$0	$0
North Coast	$316	$340	$361	$371	$365	$1,753	$351	$1,569
Hunter	$2,530	$2,822	$3,041	$3,114	$3,243	$14,750	$2,950	$13,171
South Coast	$208	$268	$296	$289	$292	$1,352	$270	$1,206
Fish River	$0	$0	$0	$0	$0	$0	$0	$0
Base government share	**$53,212**	**$54,838**	**$56,161**	**$56,240**	**$56,524**	**$276,975**	**$55,395**	**$244,536**
Reallocation to Government share - Existing CSO (North Coast and South Coast)	$426	$1,219	$2,729	$5,667	$11,515	$21,556	$4,311	$18,306
Adjustment to cap prices - Standard Water Use Customers	$501	$4,490	$10,333	$18,646	$30,311	$64,280	$12,856	$53,495
Adjustment to cap prices - Licensed Environmental Water (LEW)	$0	$0	$0	$0	$0	$0	$0	$0
Total government share	**$54,139**	**$60,546**	**$69,223**	**$80,553**	**$98,350**	**$362,811**	**$72,562**	**$316,338**

Figure 20 – User Share Revenue Rrequirement Alternative Scenario 2 – Rural Valleys ($2024-25)

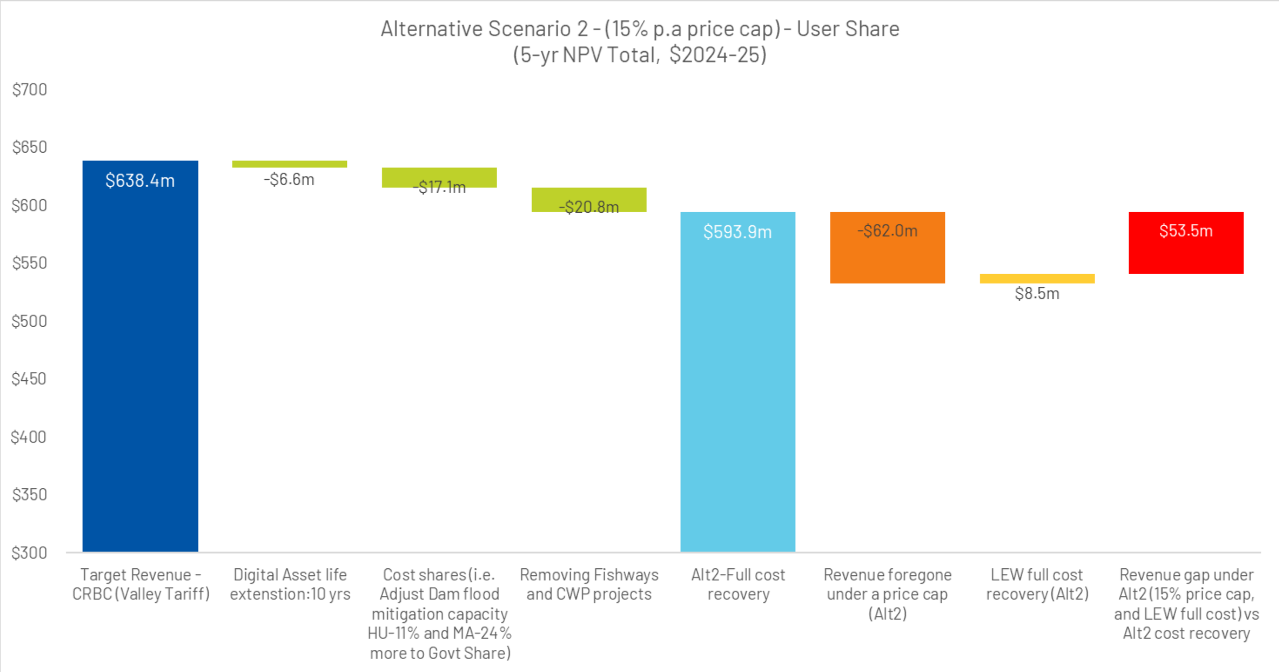
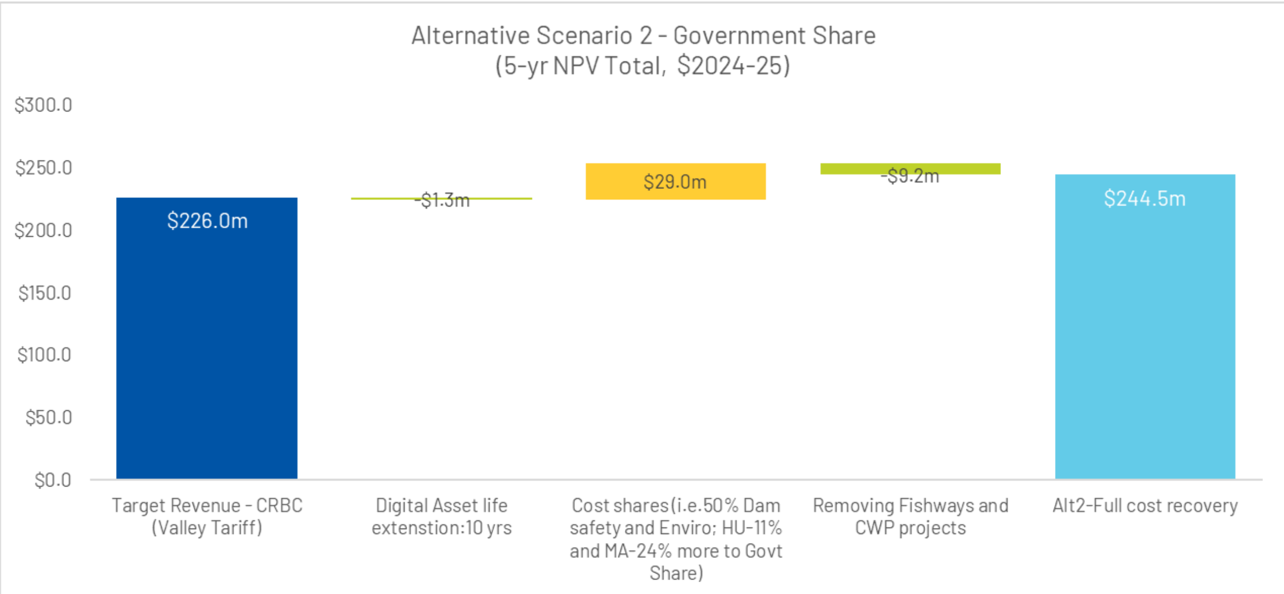


Figure 21 – Government Share Revenue requirement Alternative Scenario 2 – Rural Valleys ($2024-25)



3.4 Revenue requirement Scenario 3 – Rural Valleys – Regional Pricing

Alternative Scenario 3a builds on the price capping, ICT asset life extension from 7 to 10 years and the cost sharing arrangements identified in Alternative Scenario 1 and applies these against a pricing reform initiative that would see the pricing of rural bulk water services transitioning from valley-based to regional-based charging. Alternative Scenario 3b includes scenario 3a but with the introduction of a transitional charge to Namoi, Peel, Hunter and Lachlan valleys to minimise the additional funding impact to the consolidated revenue fund resulting from the implementation of regional based pricing. The implementation of a transitional charge is our preferred option under Alternative Scenario 3 – Regional Based Pricing. We have provided building block variance analysis by valley of the change in revenue requirement between Alternative Scenario 3 to Alternative Scenario 1 in Appendix A.

Table 14 – User Share Revenue Requirement Alternative Scenario 3 ($000, $2024-25)

Smoothed User Share Revenue requirement by valley ($000's $2024-25) - Rural Valleys (Regional Based - Alternative 3)								
	2025-26	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Total**	**Average**	**NPV**
Border	$470	$470	$470	$470	$470	$2,349	$470	$21,797
Gwydir	$4,273	$4,273	$4,273	$4,273	$4,273	$21,366	$4,273	$53,928
Namoi	$4,021	$4,021	$4,021	$4,021	$4,021	$20,103	$4,021	$37,385
Peel	$780	$780	$780	$780	$780	$3,899	$780	$6,757
Lachlan	$7,534	$7,534	$7,534	$7,534	$7,534	$37,669	$7,534	$50,255
Macquarie	$4,182	$4,182	$4,182	$4,182	$4,182	$20,911	$4,182	$56,126
Murray	$3,955	$3,955	$3,955	$3,955	$3,955	$19,775	$3,955	$117,879
Murrumbidgee	$6,632	$6,632	$6,632	$6,632	$6,632	$33,161	$6,632	$145,613
Lowbidgee	$1,372	$1,372	$1,372	$1,372	$1,372	$6,862	$1,372	$15,279
North Coast	$450	$450	$450	$450	$450	$2,249	$450	$2,311
Hunter	$1,891	$1,891	$1,891	$1,891	$1,891	$9,455	$1,891	$29,715
South Coast	$442	$442	$442	$442	$442	$2,208	$442	$2,386
North Regional	$30,999	$30,999	$30,999	$30,999	$30,999	$154,996	$30,999	$0
South Regional	$55,103	$55,103	$55,103	$55,103	$55,103	$275,514	$55,103	$0
Fish River	$12,215	$13,244	$14,369	$15,599	$16,945	$72,371	$14,474	$63,393
Base user share	**$134,319**	**$135,348**	**$136,472**	**$137,702**	**$139,048**	**$682,889**	**$136,578**	**$602,822**
of which								
Standard Water Use Customers	$115,160	$116,188	$117,313	$118,543	$119,889	$587,093	$117,419	$518,212
Licensed Environmental Water (LEW) - Existing Tariff	$19,159	$19,159	$19,159	$19,159	$19,159	$95,796	$19,159	$84,610
Reallocation to Government share - Existing CSO (North Coast and South Coast)	$505	$505	$505	$505	$505	$2,527	$505	$2,256
Adjustment to cap prices - Standard Water Use Customers	$34,505	$26,935	$18,550	$9,300	-$951	$88,339	$17,668	$81,977
Adjustment to cap prices - Licensed Environmental Water	$0	$0	$0	$0	$0	$0	$0	$0
Total user share	**$99,309**	**$107,907**	**$117,417**	**$127,896**	**$139,494**	**$592,023**	**$118,405**	**$518,589**
of which								
Standard Water Use Customers pay	$80,149	$88,748	$98,258	$108,737	$120,335	$496,228	$99,246	$433,979
Licensed Environmental Water pay	$19,159	$19,159	$19,159	$19,159	$19,159	$95,796	$19,159	$84,610

Table 15 – Government Share Revenue Requirement Alternative Scenario 3 ($000, $2024-25)

Proposed Government share revenue requirement – ($000s, $2024-25) - Regional Based - Alternative 3								
	2025-26	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Total**	**Average**	**NPV**
Border	$41	$8	$7	$7	$7	$71	$14	$66
Gwydir	$7,405	$7,373	$7,308	$7,226	$7,142	$36,454	$7,291	$32,227
Namoi	$12,926	$12,898	$12,800	$12,669	$12,534	$63,827	$12,765	$56,419
Peel	$4,338	$4,314	$4,322	$4,299	$4,277	$21,550	$4,310	$19,040
Lachlan	$5,246	$5,163	$5,134	$5,090	$5,045	$25,679	$5,136	$22,702
Macquarie	$4,107	$4,056	$4,002	$3,947	$3,893	$20,005	$4,001	$17,693
Murray	$1,113	$1,093	$1,076	$1,086	$1,087	$5,455	$1,091	$4,821
Murrumbidgee	$6,028	$5,924	$5,814	$5,704	$5,942	$29,413	$5,883	$25,997
Lowbidgee	$0	$0	$0	$0	$0	$0	$0	$0
North Coast	$133	$130	$129	$128	$127	$648	$130	$583
Hunter	$652	$642	$637	$632	$627	$3,191	$638	$2,867
South Coast	$66	$64	$63	$63	$62	$318	$64	$286
North Regional	$6,020	$7,772	$9,788	$11,393	$12,140	$47,113	$9,423	$40,900
South Regional	$5,433	$6,811	$7,951	$8,336	$8,687	$37,219	$7,444	$32,510
Fish River	$0	$0	$0	$0	$0	$0	$0	$0
Base government share	**$53,509**	**$56,248**	**$59,032**	**$60,582**	**$61,573**	**$290,944**	**$58,189**	**$256,111**
Reallocation to Government share - Existing CSO (North Coast and South Coast)	$505	$505	$505	$505	$505	$2,527	$505	$101
Adjustment to cap prices - Standard Water Use Customers	$34,505	$26,935	$18,550	$9,300	-$951	$88,339	$17,668	$3,534
Adjustment to cap prices - Licensed Environmental Water	$0	$0	$0	$0	$0	$0	$0	$0
Total government share	**$88,519**	**$83,689**	**$78,087**	**$70,388**	**$61,127**	**$381,810**	**$76,362**	**$259,745**

Figure 22 – User Share Revenue Requirement Alternative Scenario 3 – Rural Valleys ($2024-25)

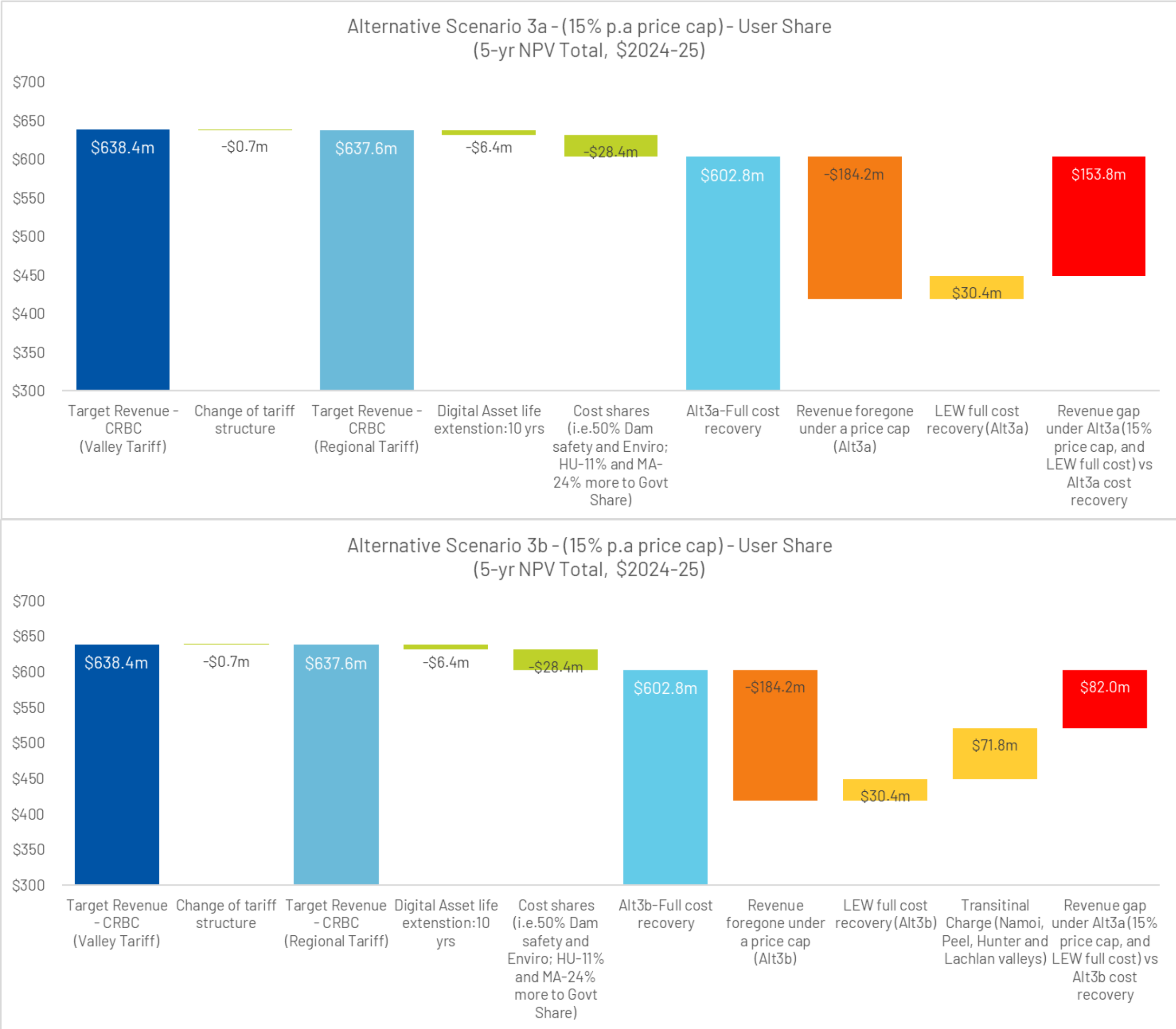
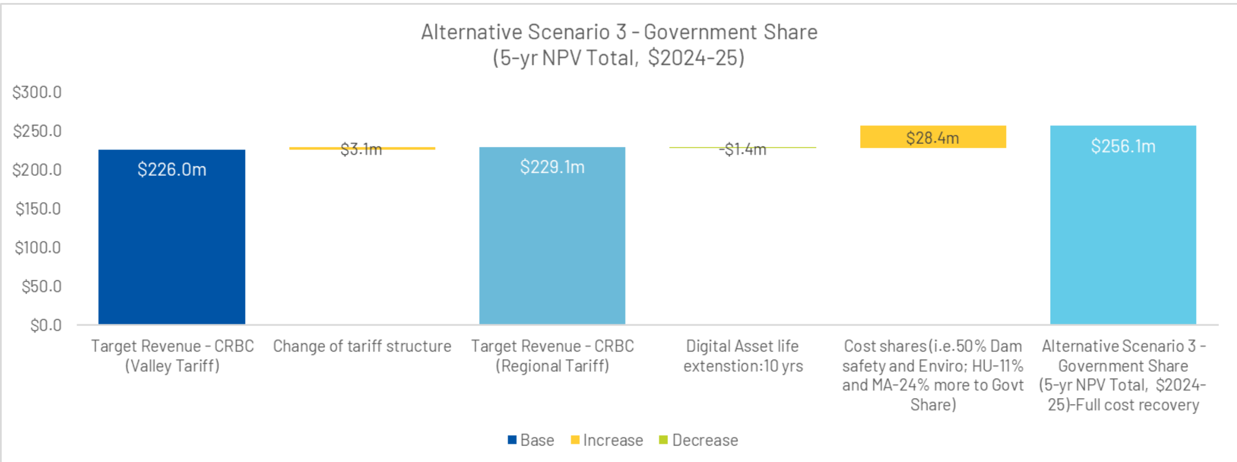


Figure 23 – Government Share Revenue Requirement Alternative Scenario 3 – Rural Valleys ($2024-25)



3.5 Comparison of 'target' and actual revenue in the current 2021-25 period

In the IPART 2021 Determination, the total smoothed user revenue requirement for WaterNSW Rural Valleys over the determination period was forecast at $305.8 million. WaterNSW forecast to collect $312.8 million in revenue from users resulting in a $7 million revenue shortfall for WaterNSW compared to the user share allowance.

The comparison of the 2021 Determination total user requirement and actual user revenue is shown in the figure below.

Table 16 – Allowed revenue against actual revenue ($000, $nominal) – User share

Comparison of allowed and actual revenues during the 2020-24 Determination period ($000, nominal) - Rural Valleys						
	2021-22	**2022-23**	**2023-24**	**2024-25**	**Total**	**Average**
Revenue in current determination - User Share (post CSO)	$67,003	$75,130	$80,360	$83,258	$305,750	$61,150
Actual/Forecast revenue - User Share	$66,359	$70,898	$96,777	$78,784	$312,818	$62,564
Variance ($) - User share	-$644	-$4,232	$16,417	-$4,474	$7,068	$1,414
Variance (%) - User share	-1.0%	-5.6%	20.4%	-5.4%	2.3%	2.3%

Analysis excludes revenue for the MDBA/BRC pass through charges, meter service charge, and the Yanco Creek levy.
*Actual revenue equals user revenue for the purpose of the analysis however this does not reflect expected revenue outcome given the prolonged effects of drought.

Demand in the current period is above IPART's forecast but still leading to a reduction in outturn revenue in some years of the current period as lower water sales are observed in valleys with a high usage charge (unit cost). The results are attributable to the high volatility in rural valley sales and forecasting error produced in using the 20-year rolling average as a point average to set the rural valley usage charges.

WaterNSW notes that its proposed updates to the 20-year rolling average has led to reduced volumes and a revenue shortfall position for WaterNSW, with the 20-year rolling average for **water usage falling by 5.9% since the 2021 Determination** (3,729 GL vs 3,965 GL set by IPART).

4. Community Service Obligations and Residual Funding Shortfall

4.1 Greater Sydney Determination

4.1.1 Community Service Obligation – Greater Sydney – Recreational Land Maintenance

Under the 2020 Greater Sydney Determination, IPART decided to allocate 50% of the cost of recreational land maintenance to the Government to be funded under a Community Service Obligation (CSO). This CSO is not included in the Greater Sydney Operating Expenditure or total revenue requirement.

WaterNSW has updated the total recreational land management CSO under our forecast expenditure plan.

Table 17 – Recreational Land Maintenance CSO ($millions, $real)

Recreational Land Maintenance CSO ($2024-25, $000 $millions)							
	2025-26	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Total**	**Average**
CSO - Recreational Land management (50%)	$1.1	$1.1	$1.1	$1.1	$1.1	$5.4	$1.1

4.2 Rural Valley Determination

4.2.1 Community Service Obligation – Cost Reflective Base Case

In the 2021 Determination, IPART set prices in the North and South Coast valleys below cost reflective levels to address the social impacts arising from the sudden transition of customer prices to cost reflective levels. Over the current determination period, prices in the North Coast and South Coast valleys have remained constant in real terms, increasing only by inflation. WaterNSW is proposing to retain the current price levels in real terms due to social considerations and affordability concerns.

WaterNSW has calculated that it will require an additional $2.4 million per annum for North Coast and $1.9 million per annum for South Coast in CSO subsidy payments from current levels by the end of the next determination period (the 2029-30 financial year) to recover its prudent and efficient user share of costs. This is due to declining customer numbers and average water sales and the increased cost of compliance and infrastructure in these valleys. The calculation of the new CSO payments and associated inputs are shown in the tables below.

Table 18 – Community Service Obligations– North Coast ($2024-25)

North Coast ($2024-25, $000)							
	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-30	Average
Revenue from full cost recovery tariff	$284	$634	$1,416	$3,162	$7,062	$12,557	$2,511
Amount recovered from charges (assume no price increase from 2024-25)	$127	$127	$127	$127	$127	$636	$127
Subsidy	$157	$507	$1,288	$3,034	$6,935	$11,921	$2,384

Table 19 – Community Service Obligations–South Coast ($2024-25)

South Coast ($2024-25, $000)							
	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-30	Average
Revenue from full cost recovery tariff	$688	$1,138	$1,880	$3,106	$5,132	$11,943	$2,389
Amount recovered from charges (assume no price increase from 2024-25)	$417	$417	$417	$417	$417	$2,083	$417
Subsidy	$272	$721	$1,463	$2,689	$4,715	$9,859	$1,972

4.2.2 Residual Funding Shortfall – Rural Valleys Alternative Scenario 1

Scenario 1 results in a **residual funding shortfall of $60 million** (NPV Neutral) in on the user share revenue requirement over five years compared to the Cost Reflective Base Case to manage the financial risk to WaterNSW of not receiving the required funding to meet customer statutory obligations.

In addition, the existing CSO payment for the North Coast and South Coast of $18.2 million over 5 years (or $2.2 million per annum for North Coast and $1.9 million for the South Coast) will be required to continue to provide regulated services in these valleys.

Table 20 – Community Service Obligation and Residual funding shortfall– Scenario 1 ($2024-25)

Community Service Obligation and Residual Funding Shortfall ($2024-25, $000) - Alternative 1								
	2025-26	2026-27	2027-28	2028-29	2029-30	Total	Average	NPV
Revenue from full cost recovery tariff	**$91,388**	**$109,113**	**$132,043**	**$161,564**	**$200,612**	**$694,720**	**$138,944**	**$602,774**
of which								
Standard Water Use Customers	$80,394	$95,815	$115,853	$141,752	$176,235	$610,049	$122,010	$529,472
Licensed Environmental Water - Existing Tariff	$10,994	$13,298	$16,190	$19,812	$24,377	$84,671	$16,934	$73,302

Community Service Obligation and Residual Funding Shortfall ($2024-25, $000) - Alternative 1								
	2025-26	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Total**	**Average**	**NPV**
Amount recovered from charges	**$90,230**	**$102,771**	**$117,713**	**$135,075**	**$155,323**	**$601,112**	**$120,222**	**$524,466**
of which								
North Coast and South Coast	$544	$544	$544	$544	$544	$2,719	$544	$2,441
Standard Water Use Customers	$78,692	$88,929	$100,979	$114,719	$130,402	$513,722	$102,744	$448,723
Licensed Environmental Water - Existing Tariff	$10,994	$13,298	$16,190	$19,812	$24,377	$84,671	$16,934	$73,302
Subsidy	**$1,158**	**$6,342**	**$14,330**	**$26,489**	**$45,289**	**$93,608**	**$18,722**	**$78,308**
of which								
North Coast and South Coast CSO	$425	$1,216	$2,720	$5,645	$11,461	$21,467	$4,293	$18,231
Standard Water Use Customers Residual Funding Shortfall	$733	$5,126	$11,610	$20,844	$33,827	$72,141	$14,428	$60,077
Licensed Environmental Water - Existing Tariff	$0	$0	$0	$0	$0	$0	$0	$0

*Under Alternative Scenario 1, licensed Environmental Water is levied a 'full freight' valley charge.

4.2.3 Residual Funding Shortfall – Rural Valleys Alternative Scenario 2

Scenario 2 results in a **residual funding shortfall of $53.5 million** (NPV Neutral) on the user share revenue requirement over five years compared to the Cost Reflective Base Case to manage the financial risk to WaterNSW of not receiving the required funding to meet customer statutory obligations. This is $6.6 million less over five years than the CSO required under Alternative Scenario 1.

In addition, the existing CSO payment for the North Coast and South coast of $18.3 million over 5 years (or $2.3 million per annum for North Coast and $1.9 million for the South Coast) will be required to continue to provide regulated services in these valleys.

Table 21 – Community Service Obligation and Residual funding shortfall– Scenario 2 ($2024-25)

Community Service Obligation and Residual Funding Shortfall ($2024-25, $000) - Alternative 2								
	2025-26	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Total**	**Average**	**NPV**
Revenue from full cost recovery tariff	**$91,043**	**$108,175**	**$130,267**	**$158,612**	**$196,019**	**$684,117**	**$136,823**	**$593,881**
of which								
Standard Water Use Customers	$80,106	$95,027	$114,359	$139,267	$172,367	$601,125	$120,225	$521,989
Licensed Environmental Water - Existing Tariff	$10,938	$13,147	$15,908	$19,346	$23,653	$82,992	$16,598	$71,892
Amount recovered from charges	**$90,116**	**$102,466**	**$117,206**	**$134,300**	**$154,194**	**$598,281**	**$119,656**	**$522,080**
of which								
North Coast and South Coast	$544	$544	$544	$544	$544	$2,719	$544	$2,441
Standard Water Use Customers	$78,635	$88,775	$100,753	$114,410	$129,997	$512,570	$102,514	$447,747
Licensed Environmental Water - Existing Tariff	$10,938	$13,147	$15,908	$19,346	$23,653	$82,992	$16,598	$71,892
Subsidy	**$927**	**$5,709**	**$13,061**	**$24,313**	**$41,826**	**$85,836**	**$17,167**	**$71,801**
of which								
North Coast and South Coast CSO	$426	$1,219	$2,729	$5,667	$11,515	$21,556	$4,311	$18,306
Standard Water Use Customers Residual Funding Shortfall	$501	$4,490	$10,333	$18,646	$30,311	$64,280	$12,856	$53,495
Licensed Environmental Water - Existing Tariff	$0	$0	$0	$0	$0	$0	$0	$0

*Under Alternative Scenario 2, licensed Environmental Water is levied a 'full freight' valley charge.

4.2.4 Residual Funding Shortfall – Rural Valleys Alternative Scenario 3 – Regional Pricing

Scenario 3b (preferred option under regional pricing with the transitional charge) results in a **residual funding shortfall of $82 million** (NPV Neutral) on the user share revenue requirement over five years compared to the Cost Reflective Base Case to manage the financial risk to WaterNSW of not receiving the required funding to meet customer statutory obligations.

In addition, the existing CSO payment for the North Coast and South Coast of $2.3 million over 5 years will be required to continue to provide regulated services in these valleys.

Table 22 – Community Service Obligation and Residual Funding Shortfall – Scenario 3(b) Regional Pricing ($2024-25)

Community Service Obligation and Residual Funding Shortfall ($2024-25, $000) - Alternative 3								
	2025-26	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Total**	**Average**	**NPV**
Revenue from full cost recovery tariff	**$134,319**	**$135,348**	**$136,472**	**$137,702**	**$139,048**	**$682,889**	**$136,578**	**$602,822**
of which								
Standard Water Use Customers	$115,160	$116,188	$117,313	$118,543	$119,889	$587,093	$117,419	$518,212
Licensed Environmental Water - Existing Tariff	$19,159	$19,159	$19,159	$19,159	$19,159	$95,796	$19,159	$84,610
Amount recovered from charges	**$99,309**	**$107,907**	**$117,417**	**$127,896**	**$139,494**	**$592,023**	**$118,405**	**$446,762**
of which								
North Coast and South Coast	$544	$544	$544	$544	$544	$2,719	$544	$2,441
Standard Water Use Customers	$79,606	$88,204	$97,714	$108,193	$119,791	$493,508	$98,702	$359,712
Licensed Environmental Water - Existing Tariff	$19,159	$19,159	$19,159	$19,159	$19,159	$95,796	$19,159	$84,610
Subsidy	**$35,010**	**$27,440**	**$19,055**	**$9,806**	**-$446**	**$90,865**	**$18,173**	**$84,233**
of which								
North Coast and South Coast CSO	$505	$505	$505	$505	$505	$2,527	$505	$2,256
Standard Water Use Customers Residual Funding Shortfall	$34,505	$26,935	$18,550	$9,300	-$951	$88,339	$17,668	**$81,977**
Licensed Environmental Water - Existing Tariff	$0	$0	$0	$0	$0	$0	$0	$0

*Under Alternative Scenario 3, licensed Environmental Water is levied a 'full freight' regional/legacy valley charge.

4.2.5 Glide path to cost reflective pricing levels

This section provides analysis on the number of years required in order to reach cost reflective pricing levels under Alternative Scenario 1 and Alternative Scenario 3 (with the transitional charge). This analysis assumes 15% per annum real annual price increases until cost reflective levels are reached.

Figure 24 – Revenue requirement alternative scenario 3 transitional to cost reflective pricing ($2024-25)

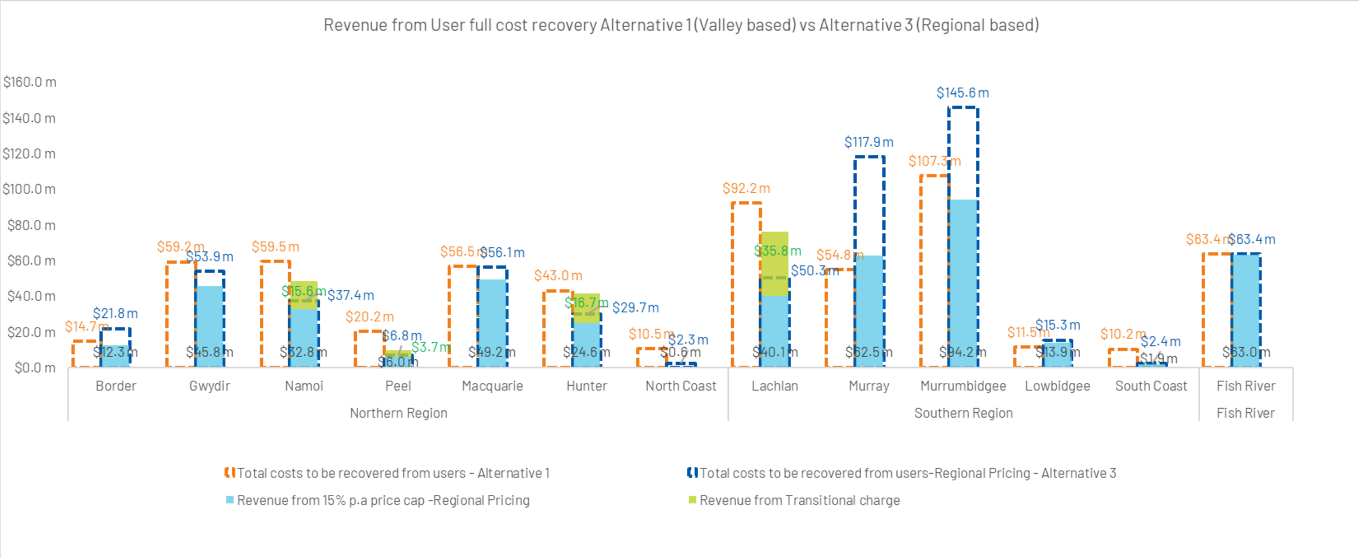
NPV (FY26-FY30) millions, $2024-25			Slower	Faster	Approximate the maximum years to reach full cost recovery for each valley with a 15% per annum price cap on charges	
Regional Pricing - Alternative 3	Total Full cost recovery from users - Alternative 3b	Revenue from 15% p.a price cap (LEW full freight)- Regional Pricing with transitional charge	CSO- Existing (NC and SC)	Funding Gap - Alternative 3b	Under a regional-based pricing proposal - Alternative 3b (with transitional charge)	Under a valley-based pricing proposal - Alternative 1
	i	ii	iii = i - ii	iv = i - ii - iii		
Border	$21.8 m	$12.3 m		$9.5 m	9 years, or 2 Regulatory periods	8 years, or 2 Regulatory periods
Gwydir	$53.9 m	$45.8 m		$8.1 m	6 years, or 2 Regulatory periods	8 years, or 2 Regulatory periods

NPV (FY26-FY30) millions, $2024-25			Slower	Faster	Approximate the maximum years to reach full cost recovery for each valley with a 15% per annum price cap on charges	
Regional Pricing - Alternative 3	Total Full cost recovery from users - Alternative 3b	Revenue from 15% p.a price cap (LEW full freight)- Regional Pricing with transitional charge	CSO- Existing (NC and SC)	Funding Gap - Alternative 3b	Under a regional-based pricing proposal - Alternative 3b (with transitional charge)	Under a valley-based pricing proposal - Alternative 1
	i	ii	iii = i - ii	iv = i - ii - iii		
Namoi	$37.4 m	$48.4 m		-$11.0 m	5 years, or 2 Regulatory periods	7 years, or 2 Regulatory periods
Peel	$6.8 m	$9.7 m		-$3.0 m	6 years, or 2 Regulatory periods	12 years, or 3 Regulatory periods
Macquarie	$56.1 m	$49.2 m		$6.9 m	6 years, or 2 Regulatory periods	6 years, or 2 Regulatory periods
North Coast	$2.3 m	$0.6 m	$1.7 m	$0.0 m	16 years, or 4 Regulatory periods	28 years, or 6 Regulatory periods
Hunter	$29.7 m	$41.3 m		-$11.6 m	6 years, or 2 Regulatory periods	1 years, or 2 Regulatory periods
Lachlan	$50.3 m	$75.9 m		-$25.7 m	7 years, or 2 Regulatory periods	11 years, or 3 Regulatory periods
Murray	$117.9 m	$62.5 m		$55.4 m	10 years, or 2 Regulatory periods	6 years, or 2 Regulatory periods
Murrumbidgee	$145.6 m	$94.2 m		$51.4 m	8 years, or 2 Regulatory periods	7 years, or 2 Regulatory periods
Lowbidgee	$15.3 m	$13.9 m		$1.4 m	7 years, or 2 Regulatory periods	7 years, or 2 Regulatory periods
South Coast	$2.4 m	$1.9 m	$0.5 m	$0.0 m	8 years, or 2 Regulatory periods	17 years, or 4 Regulatory periods
Fish River	$63.4 m	$63.0 m		$0.4 m	7 years, or 2 Regulatory periods	7 years, or 2 Regulatory periods
Total	**$602.8 m**	**$518.6 m**	**$2.3 m**	**$82.0 m**		

* Transitional charge is to bridge the gap between Alternative 1 (Valley based tariff) and Alternative 3 (Regional based tariff), for Namoi, Peel, Hunter and Lachlan valleys (i.e. the beneficiaries of regional pricing over the first five years whereby prices are substantially below the 15% per annum ceiling). Under this option, a transitional charge is introduced to **defer a portion of the benefits of moving to regional pricing to subsequent regulatory periods** (i.e. while the transitional charge defers some of the benefit in the first five years for the four valleys discussed above, all valleys are capped at a 15% per annum ceiling). The funding Gap – Alternative 3b column negative amounts are due to the above, customers are not overpaying under any alternative scenarios.

The following figure provides an assessment of the revenue requirement over five years by valley of Alternative Scenario 3 – Regional pricing. It illustrates the revenue requirement under the 15% per annum price cap under valley based pricing under Alternative Scenario 1 (the orange dotted line), the revenue requirement to be recovered from customers over five years under regional pricing (the dark blue dotted line), the revenue requirement to be recovered from customers under regional pricing without a transitional charge incorporated as relevant (the light blue shaded area) and the revenue requirement associated with the transitional charge (the green shaded area).

Figure 25 – Revenue requirement alternative scenario 3 ($2024-25)



As illustrated above, in some valleys the revenue to be recovered under a 15% p.a. (plus inflation) price cap under valley-based pricing over the next five years is higher than under regionally-based pricing. This is the case for Gwydir, Namoi, Peel, Macquarie, Hunter, North Coast, Lachlan and South Coast (i.e. better off under regional-based pricing).

In Murray, Murrumbidgee, Border and Lowbidgee the revenue to be recovered under a 15% p.a. (plus inflation) price cap under regional-based pricing over the next five years is higher than under valley-based pricing (i.e. better off under valley-based pricing).

Transitional charge

In the above analysis, WaterNSW has applied a transitional charge in specific circumstances. The transitional charge is calculated as a single fixed and a single variable charge that would apply to those valleys that would otherwise experience a large windfall gain from the move to regional pricing on 1 July 2025. That is, the transitional charge aims to reduce the gap between the revenue that would have been recovered through valley-based charges and the revenue that would be recovered through regionally-based charges to promote an orderly transition to the new pricing framework. Customers who would be worse off under regionally-based pricing would not face correspondingly higher charges over the next five years as they are captured under the 15% p.a. price cap, resulting in a funding gap that is not resolved via tariffs. This suggests that some form of transitional arrangement is appropriate in the move to regionally-based pricing. The transitional charge would apply to four valleys: Namoi, Peel, Hunter and Lachlan valleys.

Due to the calculation of the single fixed and signal variable transitional charge that applies across valleys, it is not possible to apply the charge to all valleys where there regionally-based prices result in lower revenues than valley-based pricing. This is on the basis that if the transitional charge is applied in some valleys, it would result in bill increases above 15% per year, which would breach the 15% per year (plus inflation) price cap <<TBC>>. This is the case for Gwydir and Macquarie where the revenue requirement over the next five years from regionally-based prices is less than the revenue requirement from valley-based charges, but where the application of a single transitional charge would result in a revenue requirement above the 15% per year valley-based price cap. North Coast and South Coast valleys have not been made subject to the transitional charge.

While it is possible to calculate bespoke transitional charges by valley to adjust the revenue difference between valley-based and regionally-based pricing at a factor ranging from 0% to 100%, WaterNSW has instead applied a single transitional charge. This is seen as a more equitable and transparent method of transitioning to a new charging regime. We note that the transitional charge could apply beyond the upcoming regulatory period to help manage transitional pricing issues and could be reviewed and applied by IPART at each subsequent review as appropriate.

5. Appendix A

In this Appendix A, we provide building block variance analysis by valley of the change in revenue requirement between Alternative Scenario 3 to Alternative Scenario 1. For this analysis, in Alternative scenario 3, we have allocated the North Region and South Region Building Block Requirements to each individual valley based on the regional tariff structure to ensure a like to like comparison with Alternative Scenario 1.

Table 23 – Revenue requirements by Valley Alternative 1 vs Alternative 3 ($2024-25)

5-year Total	Valley based - Alternative 1	Regional Based (Legacy and Regional) - Alternative 3	Change
$000	**$2024-25**	**$2024-25**	**$2024-25**
Northern Region			
Border	$16,762	$24,912	$8,150
Gwydir	$67,557	$61,444	-$6,113
Namoi	$67,816	$42,497	-$25,318
Peel	$22,959	$7,688	-$15,271
Macquarie	$64,204	$63,896	-$309
North Coast	$11,744	$2,582	-$9,162
Hunter	$48,143	$33,734	-$14,409
Southern Region			
Lachlan	$104,751	$56,976	-$47,775
Murray	$62,276	$134,199	$71,922
Murrumbidgee	$122,068	$165,673	$43,605
Lowbidgee	$13,066	$17,356	$4,290
South Coast	$11,379	$2,666	-$8,712
Fish River	$72,111	$72,111	$0
Total Revenue Requirement - User share	**$684,836**	**$685,734**	**$898**

Figure 26 – Border User Share Revenue Requirement Current Tariff to Regional Structure 3 – Rural Valleys ($2024-25)

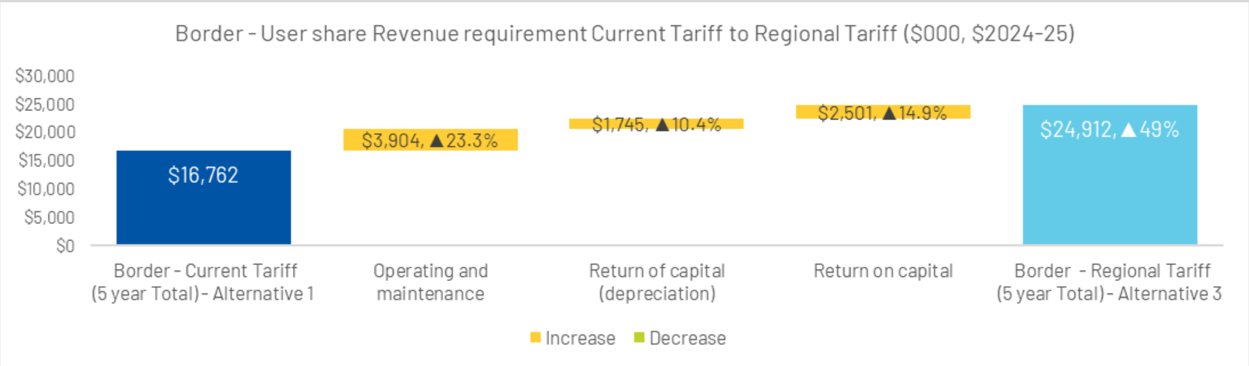


Figure 27 – Gwydir User Share Revenue Requirement Current Tariff to Regional Structure 3 – Rural Valleys ($2024-25)

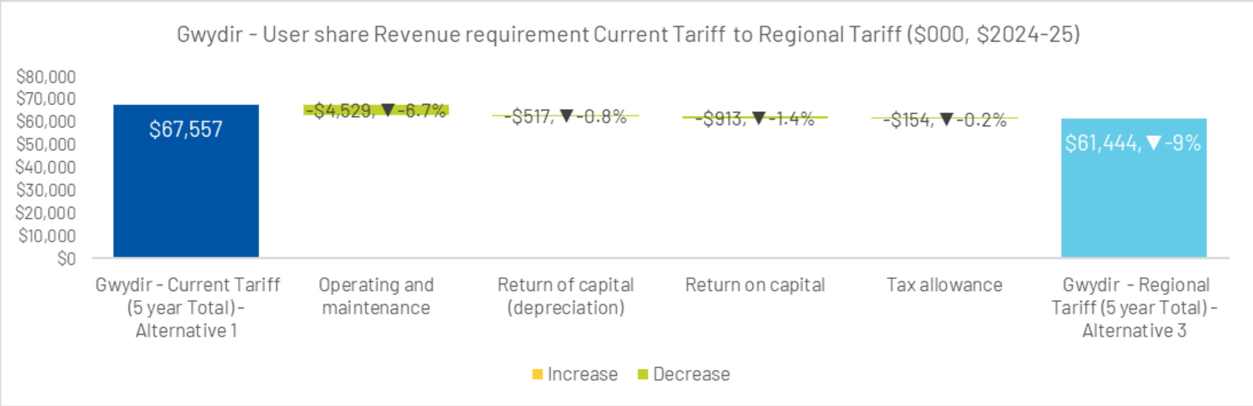


Figure 28 – Namoi User Share Revenue Requirement Current Tariff to Regional Structure 3 – Rural Valleys ($2024-25)

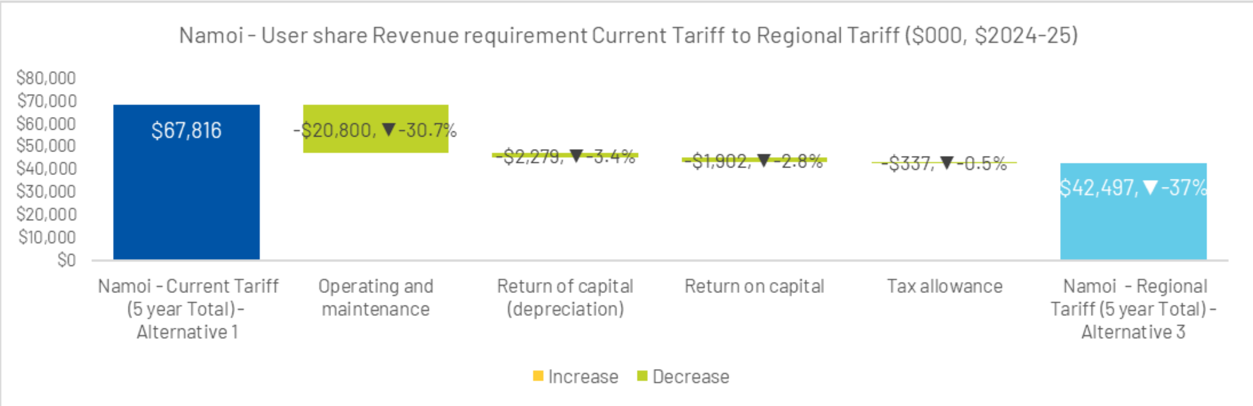


Figure 29 – Peel User Share Revenue Requirement Current Tariff to Regional Structure 3 – Rural Valleys ($2024-25)

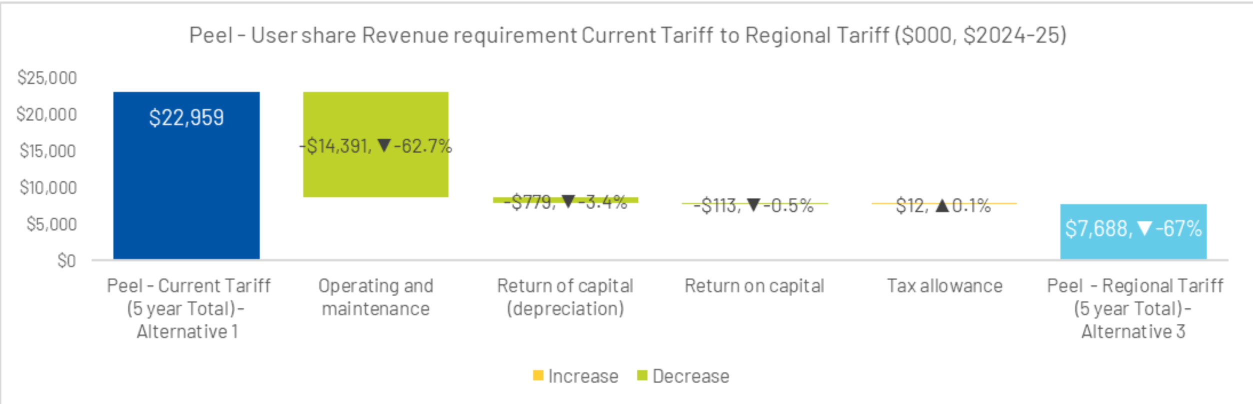


Figure 30 – Macquarie User Share Revenue Requirement Current Tariff to Regional Structure 3 – Rural Valleys ($2024-25)

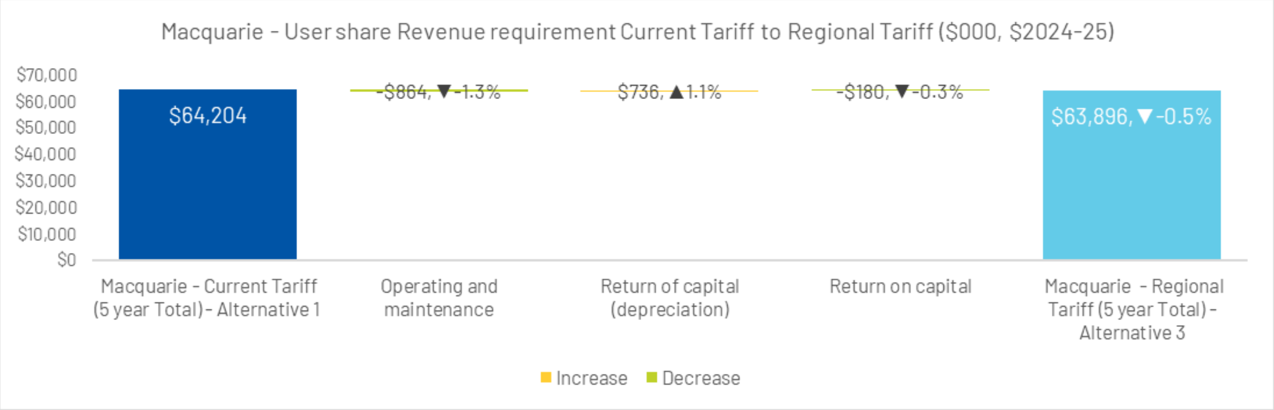


Figure 31 – Hunter User Share Revenue Requirement Current Tariff to Regional Structure 3 – Rural Valleys ($2024-25)

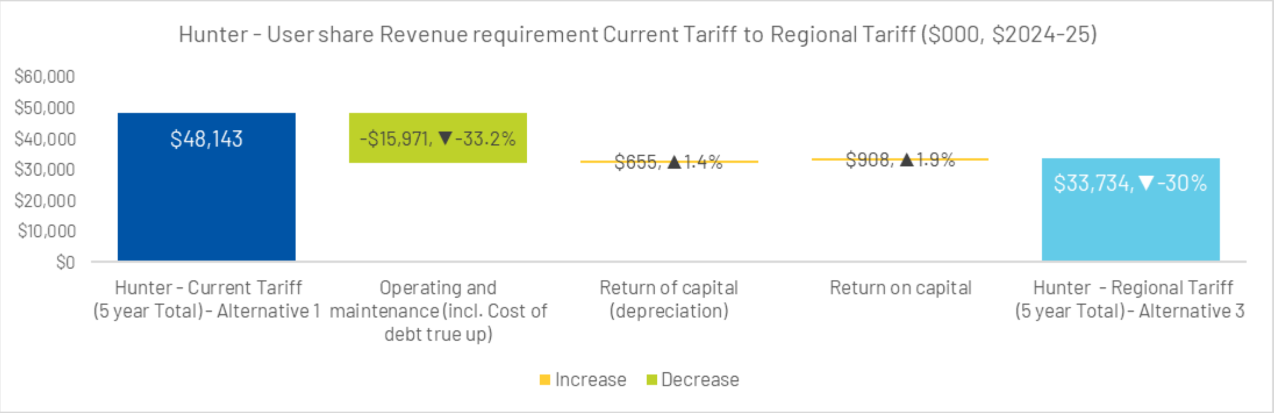


Figure 32 – North Coast User Share Revenue Requirement Current Tariff to Regional Structure 3 – Rural Valleys ($2024-25)

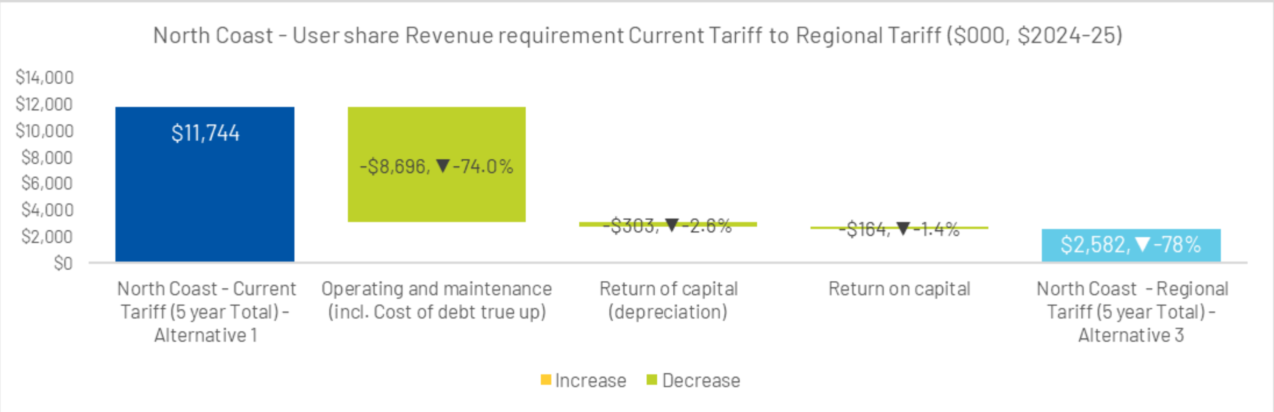


Figure 33 – Lachlan User Share Revenue Requirement Current Tariff to Regional Structure 3 – Rural Valleys ($2024-25)

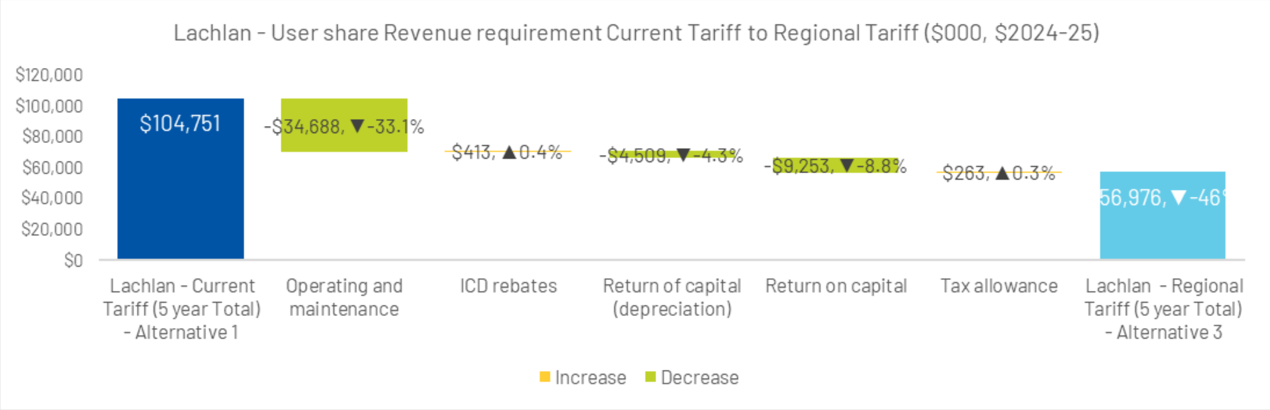


Figure 34 – Murray User Share Revenue Requirement Current Tariff to Regional Structure 3 – Rural Valleys ($2024-25)

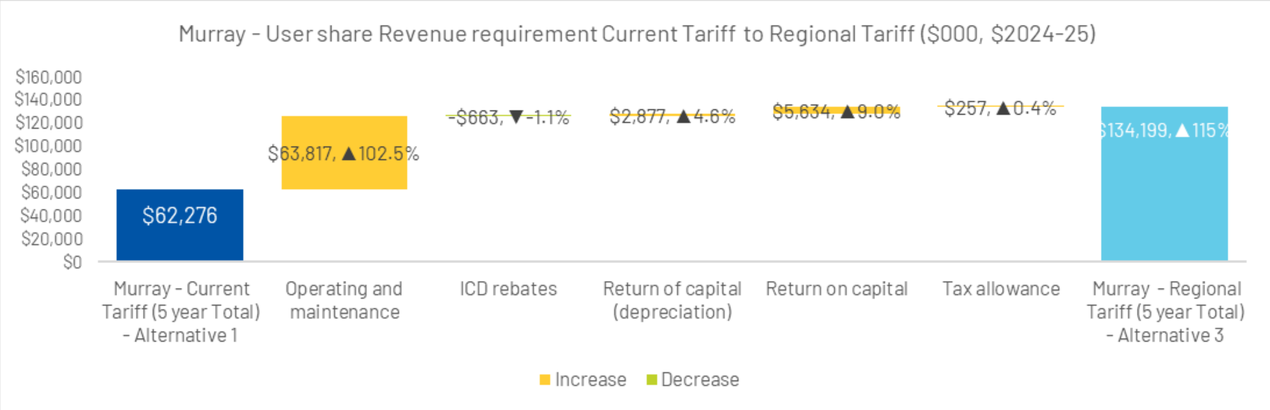


Figure 35 – Murrumbidgee User Share Revenue Requirement Current Tariff to Regional Structure 3 – Rural Valleys ($2024-25)

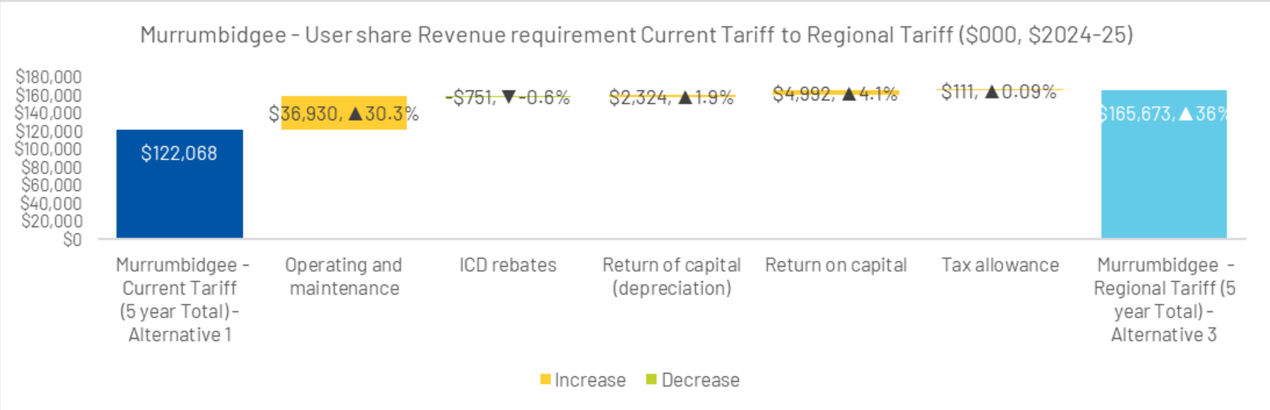


Figure 36 – Lowbidgee User Share Revenue Requirement Current Tariff to Regional Structure 3 – Rural Valleys ($2024-25)

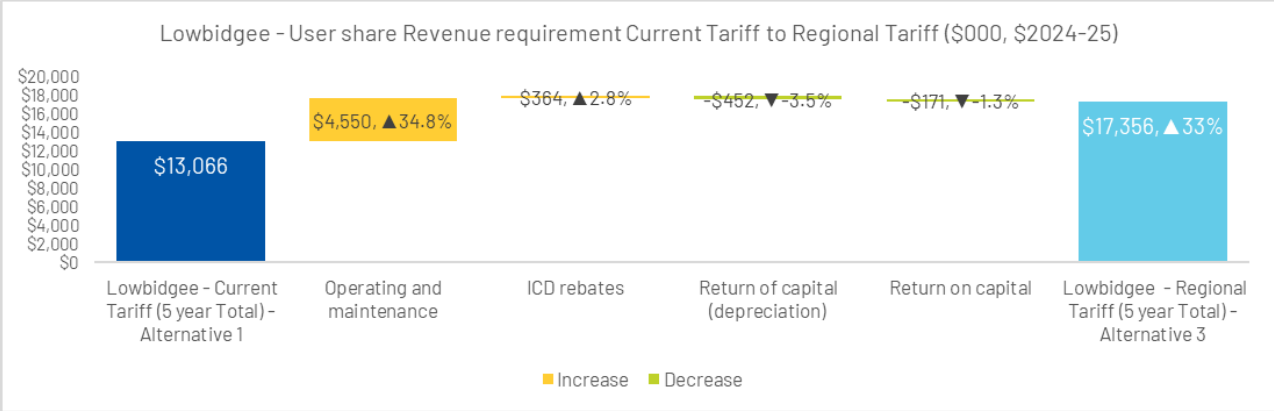


Figure 37 – South Coast User Share Revenue Requirement Current Tariff to Regional Structure 3 – Rural Valleys ($2024-25)