WaterNSW Pricing Proposal for Greater Sydney 2025-30

21 November 2024

Agenda

	Topics
1	About WaterNSW
2	Our proposal at a glance
3	Customer engagement and the 3Cs
4	Expenditure summary – what’s driving our costs and revenue requirement
5	Proposed revenues and prices

About WaterNSW

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

Our story

We're vital

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

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

What we do

We're expert operators

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

Our why

We're proud custodians

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

How we work

We're local partners

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

Our role in the Greater Sydney water sector

WaterNSW
At the source

Delivers source water to Sydney Water, three councils (Goulburn Mulwaree Council, Shoalhaven City Council & Wingecarribee Shire Council) and approx 60 smaller customers in the Greater Sydney area.

Sydney Desalination Plant

Supplies water when requested by Sydney Water, when in drought conditions or to help manage source water quality risk events.

Sydney Water
At the taps

Provides water to households and businesses for water, wastewater and stormwater services.

Setting the scene

Economic conditions and regulation driving costs up - **67% of our increase** outside our control

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

WaterNSW has cut costs

- Already **stripped out 10% of costs**
- **Cutting an additional $133 in costs over the next five years million** ($60 million in Greater Sydney)
- **Capex program $860 million lower** by deferring costs and accepting more risk ($344 million in Greater Sydney)

Our challenges

- Economic factors and regulatory changes placing upward pressure on our costs
- Investments in assets with shorter asset lives placing upward pressure on required revenues
- Lower water usage has led to a **$25 million revenue shortfall** in the current period with **13% lower** volumes forecast
- Managing **financial and operational risks** re climate, new regulatory obligations and volume variations under a fixed price cap

Proposing solutions

- Investing in **outcomes our customers want**
- **Investing in our assets** for future generations
- Long-term plan for **a more sustainable financial future** – which supports downward pressure on customer bills
- A revenue cap to manage volume risk

Meeting IPART's 3Cs 'Standard' grading

Customer

- **Customer-centric proposal** reflecting the unique role we play in Greater Sydney supplying Sydney Water.
- Through our LTCOP, our proposal is **largely focussed on supporting Sydney Water** delivering on their objectives.
- Exploring **alternative funding scenarios** to reduce costs for customers.
- **Council customers** in our Customer Advisory Group consultations

Costs

- **Two large policy** and **regulatory driven projects** make up **more than 60%** of our proposed capital program
- **Deferred $344 million in capital** for Greater Sydney
- **Proposed $60 million reduction in operating expenditure** in Greater Sydney, including a 1% per year cumulative efficiency target.

Credibility

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

Our pricing proposal at a glance

Our engagement

- Mature collaborative relationship with our biggest customer, **Sydney Water**
- **Regular cadence of multiple collaboration forums** across the business (daily operations, infrastructure, asset maintenance and catchment protection) to **ensure right level of service** is achieved
- **Multi-year consultation** on development of Long Term Capital Operating Plan (LTCOP)
- **Joint committees** on two major capital projects
- Greater Sydney CAG consultations on pricing

What we heard

From our Greater Sydney CAG, and Water Working Group engagement and from the Sydney Water customer engagement we heard:

- Common concern with **affordability.**
- Providing **secure, reliable water security**.
- Being **open and transparent** about charges & expenditure.
- **Sustainable water and land management** important.
- Easy access to **data and information**.
- **Good customer experiences**.
- Councils concerned with **security of supply**.

How we will deliver

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

For Greater Sydney, we will invest:

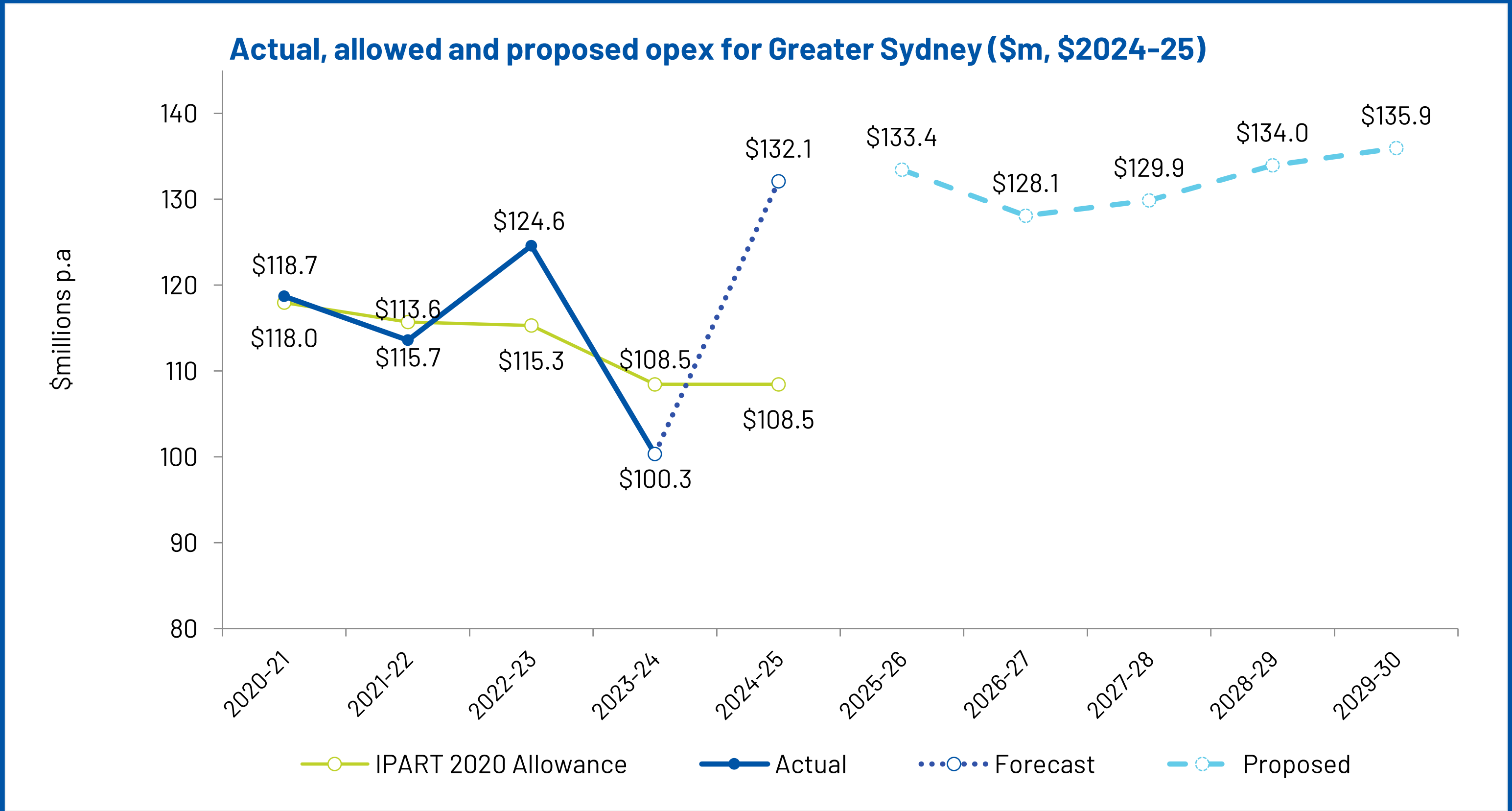
- **$1.5 billion** in our 2025-30 **capital program**.
- **$0.7 billion** in our 2025-30 **operating program**.

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

Impact on prices

- **$1.7 billion** revenue requirement, which is a **38% increase** (excl. inflation) to provide regulated services.
- **Less than $1 a week** increase for a typical Sydney Water residential customer to provide reliable bulk water
- We **reduced costs within our control** and deferred capital projects to minimise pricing impacts.
- We propose **a revenue cap** with a 2% side constraint.

Greater Sydney Operating Expenditure



Our proposed operating expenditure is **$661 million** over five years.

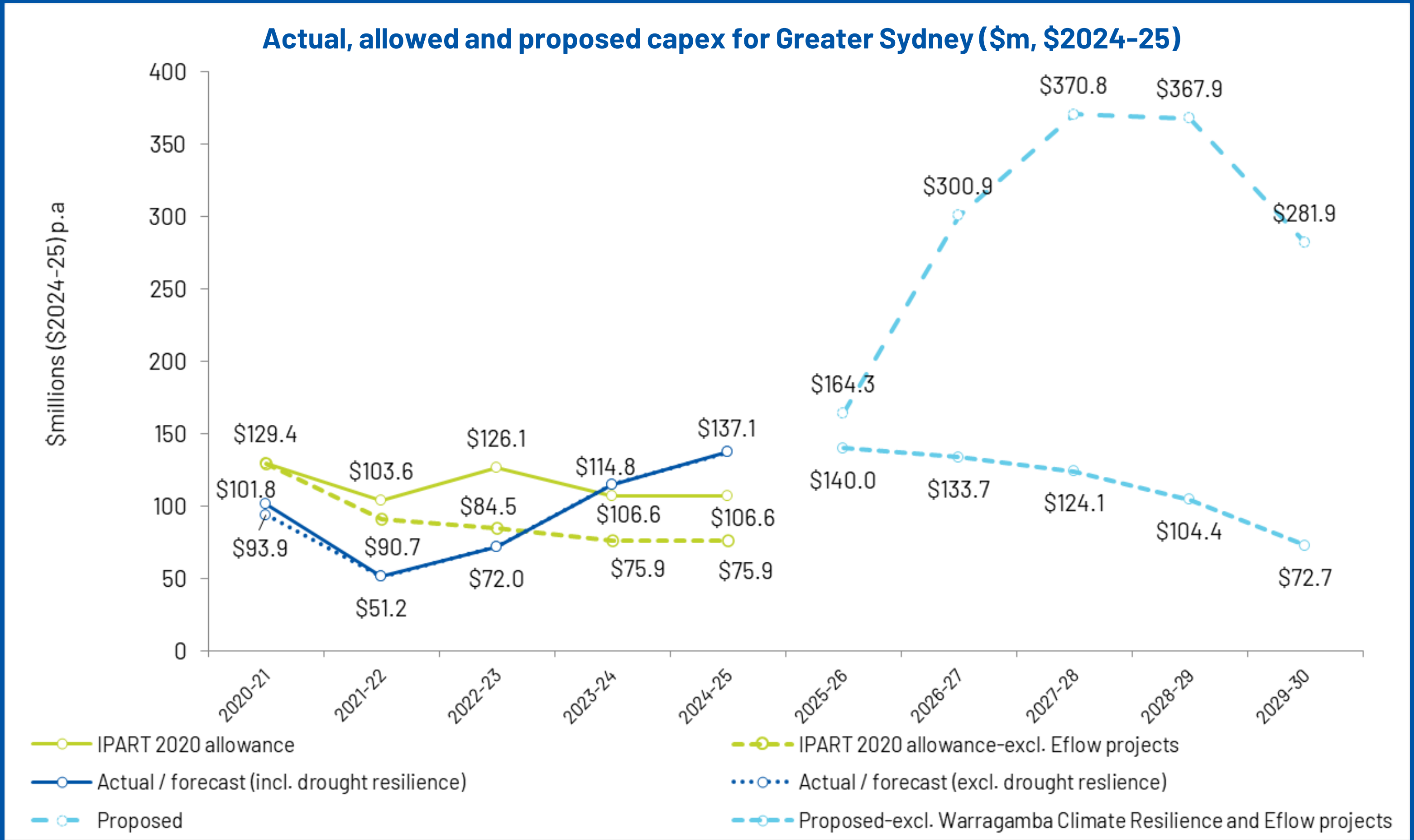
Proposed annual opex is **in line** with our forecast for 2024-25.

$18 million annual increase from the current determination with $13 million (74%) increase due to factors outside of our control:

- Land tax ($6.5m)
- Insurance ($2.2m) and electricity ($1.2m)
- WAMC (DCCEEW) licence fees and bulk water purchases from Fish River ($1.8m)
- Crane and electrical safety ($1.5m)

We have proposed $60m in additional efficiency savings over 5 years

Greater Sydney capital expenditure



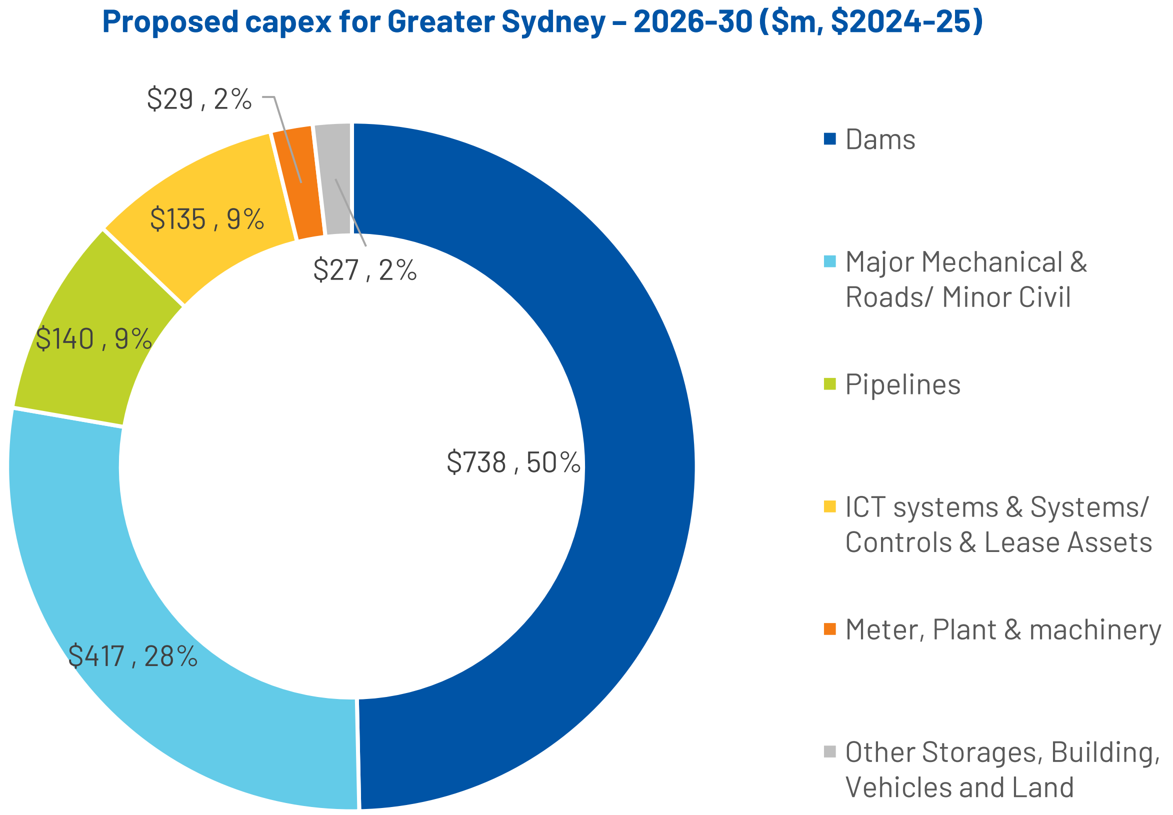
Proposed capital expenditure over five years of around **$1.5 billion**.

When excluding two large regulatory driven projects, our proposed annual capex is **16% lower** than our forecast capital expenditure for 2024-25, with **$344m deferred in Greater Sydney** to keep prices down.

This means our proposed capital program is largely consistent with current capex without these two major projects.

$1 billion – 68% of our total proposed Greater Sydney capital program is regulatory driven.

Greater Sydney Capital Expenditure



Investment of **$1,485.8 million** over five years is proposed to occur in the following asset classes:

- **Dams** - (includes Warragamba Dam Resilience - $609 million). **Asset life 200 years**
- **Major mechanical, roads and minor civil works** - (includes E-flows - $302 million). **Asset life 30 years**
- **Pipelines** - **Asset life 120 years**
- **ICT systems, systems controls and lease assets** - **Asset life 7-10 years**
- **Meters, plant and machinery** - **Asset life 12-15 years**
- **Other Storages, Building, Vehicles and Land** - **Asset life 80, 40, 5 years and non-depreciating assets**

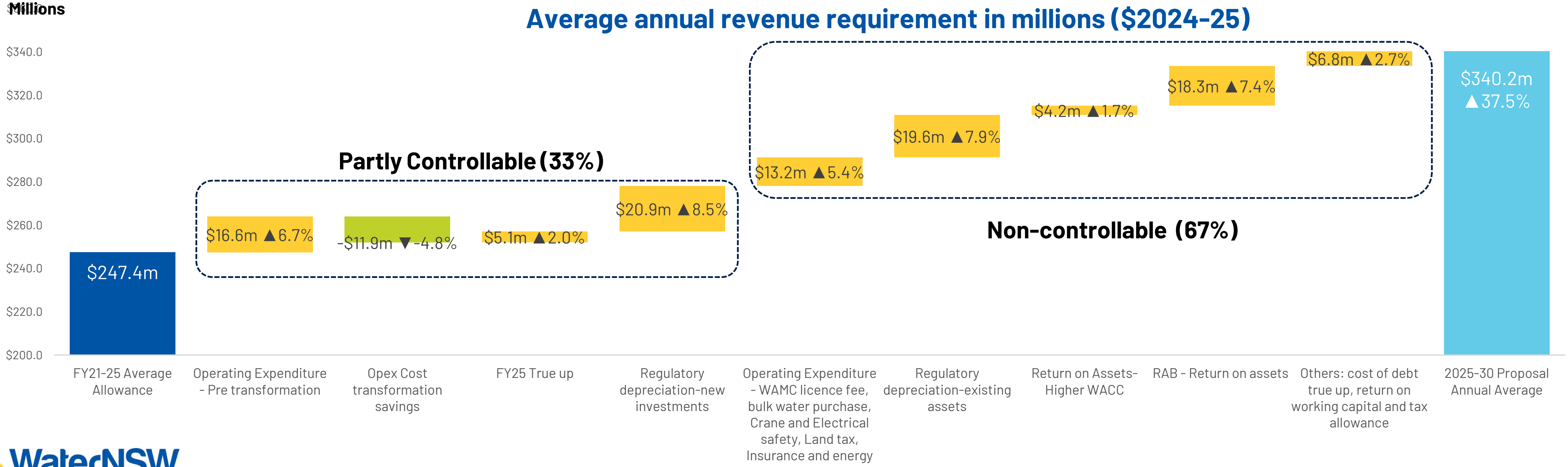
Capital expenditure is not treated the same from a revenue requirement perspective – the shorter the asset life, the greater the revenue and pricing impact until fully depreciated.

Greater Sydney revenue requirement

Our proposed revenue requirement is **$1.7 billion** ($1,701 million) **over five years** - 38% higher than 2021

Almost 90% of the **$93 million** average annual increase is due to the following three factors:

- **Return of capital ► $41 million (44%)** due higher capex for major projects and investment in assets with a shorter life (e.g. E-flows (30 yrs) and digital (7 yrs)). Average remaining life to reduce from 47.5 to 31.9 years under a disaggregated RAB.
- **Return on capital ► $23 million (24%)** partly due to a higher post-tax real **WACC** (**3.6%** vs 3.4% in the 2020 determination).
- **Opex ► $18 million (19%)** with **$13 million** (74% of Opex) in response to macro economic conditions, both new and existing asset and operational regulatory obligations.



Form of control and price structures

Challenge - **$25 million revenue shortfall** over the 2020 determination period - increased sales from Sydney Desalination Plant to Sydney Water, displacing bulk water sales from WaterNSW, and a difference between actuals and what was forecast in the current determination.

Under-recovery of efficient costs is not in the long-term interests of customers or WaterNSW.

Solution – for Sydney Water, **a revenue cap** with a 2% pricing side constraint**.**

Our engagement with Sydney Water identified that:

- **The status quo is not sustainable** and there is a problem with how prices are currently set.
- A **revenue cap** with a side constraint applied to the current tariff structure is more appropriate for WaterNSW than other options, such as higher fixed charges.
- While our solution to volume risk differs from Sydney Water's, volume risk is seen as a **key issue for both water utilities** for this review. The proposed solution reflects **different starting points** - Sydney Water's determination has a demand volatility adjustment mechanism in place (and is seeking refinements to it). WaterNSW does not.
- WaterNSW **proposes a revenue cap** as it is **widely used**, reflects our role as an infrastructure provider whose **costs do not change materially with water usage,** and is **transparent.**
- Ensures we **only recover our efficient costs** as determined by IPART - no more, no less.

Managing risk

WaterNSW is proposing a holistic approach to risk management drawing on regulatory best practice.

Our proposed approach includes:

- Cost pass throughs – nominated and general
- True-ups
- Full or partial re-openers

We consider that our proposal represents a fair sharing of risk while respecting and protecting the long-term interests of our customers and the wider community.

Our proposed risk management tools include:

- Maintain the pass-through for **Shoalhaven Transfer Scheme** costs
- Introduce a true-up for the impacts of **Sydney Desalination Plant** operation
- A true-up for the benchmark **cost of electricity** as outside of our control
- Introduce a cost pass through framework for **unknown / uncertain events** where the costs are material

Proposed revenues and prices

Our proposed prices - **$0.80 cent per week** increase ($42 on average per year) to a typical Sydney Water residential customer's bill in 2025-26.

This will enable us to provide bulk water services that meet our regulatory and legislative obligations and community expectations at the **lowest sustainable cost**.

Prices are forecast to increase on an annualised basis by 13% for council customers and 14.7% for raw and unfiltered water customers over the period.

The annualised change in bulk water tariffs for Sydney Water is **14%**.

Sydney Water forecasts bulk water usage by WaterNSW to reduce by **13%**. Increased water from SDP is contributing to increased variable charges to Sydney Water as WaterNSW variable revenues are recovered over fewer megalitres of water.

Overall, WaterNSW bulk water costs are expected to continue to make up around **8.5%** of Sydney Water's total costs.

Conclusion

- Costs have increased largely due to economic and regulatory changes
- Left no stone unturned to reduce costs and put forward alternative scenarios to minimise impacts on prices
- Balancing things outside our control with what will genuinely add value to customers
- 68% of our capital program is driven by regulatory requirements
- Our 'business as usual' annual capital program is 16% lower than our forecast 2024-25 expenditure
- Higher WACC and increased investment in shorter-lived assets has put upward pressure on required revenues
- Lower water volumes taken by Sydney Water is leading to a revenue shortfall and higher variable charges
- Not enough scope in business to cut these increases out without impacting our financeability and NSW state credit rating
- Continuing to delivering a safe and reliable drinking water supply under this Proposal will cost an additional **$0.80 cents** per week more for a typical residential customer
- We expect that WaterNSW's contribution to water user's bills will remain in line with the current proportion

Thank you