RMCG

MAY 2026

IPART Draft Decision for WaterNSW prices from 2026

Submission to IPART

On behalf of Murray Irrigation, Murrumbidgee Irrigation and Coleambally Irrigation Co-operative Limited

Murray Irrigation

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Table of Contents

Executive Summary

A cautious short term determination with more affordable prices is proposed. This will enable resolution of affordability, cost sharing, risk allocation and WaterNSW operating model issues before longer-term settings are locked in.

CONTEXT AND PROGRESS

RMCG has been engaged to support three southern NSW Irrigation Infrastructure Operators (IIOs), Murray Irrigation Limited, Murrumbidgee Irrigation, Coleambally Irrigation Co-operative Limited, in providing a response to IPART in relation to its Draft Decision on water prices for WaterNSW for 2026-2029. This submission is a result of that collaboration. Collectively, these corporations provide irrigation services to over 5,600 landholders across 1,550,000 hectares of southern NSW. Murray Irrigation, Murrumbidgee Irrigation and Coleambally Irrigation welcome the opportunity to respond to IPART's Draft Decision on WaterNSW regional and rural bulk water prices from 1 July 2026.

The IIOs recognise that WaterNSW is operating within a complex regulatory and policy environment, and that many issues raised in this submission reflect structural features of the current framework rather than shortcomings in day to day operations. The intent of this submission is to support improvements to affordability, transparency and accountability that will benefit everyone over the longer term.

The IIOs recognise progress made by IPART through deeper consideration of affordability, the counterfactual, government service costs and the WACC.

UNRESOLVED MATTERS

However, the Draft Decision leaves several important matters requiring further attention. These include ICD rebates, the government service activity, customer and government cost shares, farm business affordability, corporate cost allocations and a broader review of WaterNSW's operating environment.

These issues are material to the prices paid by irrigators in southern NSW and should be resolved before customers are exposed to sustained real price increases. The preferred position is a two year determination period which would provide short term price certainty while requiring WaterNSW to commence customer engagement immediately in preparation of its next price proposal. There is strong opposition to a longer four year determination period which would lock in these unresolved issues for too long.

IPART has recommended (Draft recommendation 1) that the NSW government undertakes a review of the longer term sustainability of the sector and the IIOs consider this work important. However, IPART should strengthen this recommendation by expressly recommending customer and IIO involvement in this review.

AFFORDABILITY

Affordability must remain central to IPART's final decision. The IIOs support IPART's consideration of the social impacts of WaterNSW's proposed prices and the decision to commission independent advice on farm business affordability. That work is an important step in recognising the practical impacts of bulk water charges on irrigators and regional communities. Further work is still required, noting irrigators are managing lower water availability, commodity market volatility, higher input costs, higher finance costs and uncertainty from State and Commonwealth water reforms.

PRICE PATH AND RISK ALLOCATION

The IIOs recommend that IPART adopts a cautious price path. A 5% cap is preferred to a 10% cap and this lower cap would moderate customer impacts while further work is undertaken by WaterNSW, IPART and the government. It has been noted in customer engagement that WaterNSW recognises cost pressures due to non-commercial functions such as fishways, environmental flows, water quality monitoring and land management.

The introduction of new risk transfer mechanisms is not supported. The proposed Demand Volatility Adjustment Mechanism (DVAM) is opposed as this would operate as a de facto revenue cap and transfer demand risk to customers. True-ups are also opposed, including the retrospective proposed WACC true-up, noting IIOs would not charge customers in the future for historical cost forecast inaccuracies.

KEY RECOMMENDATIONS

IPART's Draft Decision includes important developments, but the work is not complete. The Final Decision should set a practical short term price path, require stronger accountability and a more detailed level of engagement from WaterNSW, and allow the necessary reviews to be promptly completed before longer term settings are locked in.

The most critical of recommendations proposed in this submission are:

- IPART should adopt an annual price cap of 5% due to the significant social and economic impacts of higher price increases
- IPART should adopt a two year determination period
- IPART should retain valley based pricing and reject regional averaging or cross subsidies between NSW valleys
- IPART should increase the government cost share to at least 10% pending a review in the next determination period
- IPART should lower the cost share for several activities that achieve public benefit consistent with the revised counterfactual
- IPART should increase ICD rebates in line with general price increases and commit to a broader, standalone review in the next determination period
- IPART should reject the WACC true-up and other one-sided true-ups
- IPART should not include the DVAM in its Final Decision
- IPART should recommend customer and IIO participation in the review of the longer term sustainability of the regional and rural water sector in NSW.

ACKNOWLEDGEMENT OF COUNTRY

We acknowledge the Traditional Owners of the Country on which we work throughout Australia and recognise their enduring connection to the land, waters, and culture. We pay our respects to their Elders, both past and present, and acknowledge emerging leaders. Furthermore, we express our gratitude for the knowledge and insights that Traditional Owners and other Aboriginal and Torres Strait Islander peoples contribute to our collective work in Australia.

We extend our respects to all Aboriginal and Torres Strait Islander communities. We acknowledge that Australia was founded on the genocide and dispossession of First Nations peoples and affirm that sovereignty was never ceded in this country. We embrace the spirit of reconciliation, striving towards self-determination, equitable outcomes, and an equal voice for Australia's First Peoples.

1 About the IIOs

Murray Irrigation Limited, Murrumbidgee Irrigation Limited and Coleambally Irrigation Co-operative Limited are major Irrigation Infrastructure Operators in southern NSW. Collectively, they manage essential water delivery infrastructure, support thousands of irrigation customers and play a central role in sustaining productive agricultural regions across the Murray and Murrumbidgee valleys.

Murray Irrigation Limited is Australia's largest private irrigation company. It delivers water to more than 1,300 family farm businesses through approximately 2,778 kilometres of gravity fed channels and manages more than $1 billion of water delivery infrastructure. Its network supports irrigated agriculture, environmental water delivery and regional communities across the NSW Murray Valley.

Murrumbidgee Irrigation is one of Australia's largest private irrigation companies. It serves more than 3,000 landholdings owned by over 2,300 shareholder customers across the Murrumbidgee Irrigation Area. Its core business is water distribution, supported by drainage services, customer operations and infrastructure management across one of Australia's most diverse and productive irrigation regions.

Coleambally Irrigation Co-operative Limited operates a major gravity fed, off river irrigation supply scheme in the Murrumbidgee Valley. It is a customer owned co-operative that supplies water to the Coleambally Irrigation Area of Operations and provides local operational, metering, compliance, environmental delivery and customer service functions for its customers.

These three IIOs are directly affected by WaterNSW's regional and rural bulk water charges, and their customers are exposed to WaterNSW charges passed through to each irrigation district. The IIOs also perform functions that reduce or avoid costs that would otherwise be incurred by WaterNSW, Water Administration Ministerial Corporation (WAMC) or government agencies, including customer support, metering, compliance, water ordering, operational coordination and environmental water delivery.

At the same time, IIOs are facing additional costs from both Commonwealth and State government compliance and regulatory initiatives. These include implementation of the Commonwealth Water Market Reforms under the *Water Amendment (Restoring Our Rivers) Act 2023 (Cth)* and ongoing compliance with the *Water Act 2007 (Cth)*. In some cases, IIOs also need to meet other compliance obligations such as mandatory climate related financial disclosures. The NSW government is also implementing its regulatory improvement plan for the IIOs which will include new Department of Climate Change, Energy, the Environment and Water fees and membership of the Energy and Water Ombudsman NSW. These obligations add to the cumulative cost pressures facing IIOs and their customers.

This submission is made jointly because the three organisations share common concerns about affordability, transparency, cost allocation, risk transfer and the long term sustainability of the WaterNSW rural bulk water pricing framework.

2 Summary of responses to IPART questions and recommendations

2.1 RESPONSE TO IPART QUESTIONS

This section outlines high level responses to the questions posed by IPART in its Draft Decision. Further detail is provided in future sections of this submission.

1. What are your views on IPART's draft decision for a 3-year determination period?

A two year determination period is preferred as this would encourage WaterNSW to engage sooner with customers and avoid locking in current uncertainties and inaccuracies for a longer period than necessary.

2. Would proposed expenditure on the WaterInsights Portal provide value for money to customers?

Without knowing the exact improvements proposed and likely beneficiaries, it is difficult to say. Any technology costs should be offset by efficiency improvements and hence not contribute to bill increases.

3. Do you agree that the current avoided-cost methodology for ICD rebates remains fit for purpose? Are there any changes that should be made to the scope of avoided costs?

While the avoided cost methodology is reasonable, it should be recognised that several additional cost categories (including elements of customer support, water delivery scheduling, hydrometric modelling and corporate systems) should be included, as well as depreciation of telemetry installation. Further changes should be made following a detailed and standalone review of ICD rebates. In the meantime, ICD rebates should at least be indexed in line with overall price movements to maintain fairness.

4. What are your views on IPART's draft decision not to apply a transition to trailing average to the cost of debt in setting the WACC for WaterNSW?

This is supported to reflect the notion that the WACC is forward looking, as noted by IPART.

5. What are your views on IPART's draft decision to include a WACC true-up in WaterNSW's notional revenue requirement?

This is opposed. The decision to set prices for one year in 2025 was due to poor information from WaterNSW and IPART having a lack of confidence in WaterNSW expenditure. Applying a true-up would cost customers more with no service benefit, and it would be contradictory to the purpose of the 2025 determination.

6. We have made a draft decision to establish a new cost share activity for WaterNSW providing government services, which would have a 100% government share. What are the benefits and disadvantages of this approach?

This is supported as it attempts to ensure customers do not pay for government activities.

7. We have estimated that between 5% to 10% of WaterNSW's operating expenditure for its bulk water services to regional and rural NSW likely relates to providing the government service. Our draft decision is to choose 7.5%, the midpoint of our estimated range. What other evidence should we consider when deciding the basis for allocating costs to the government service activity?

It is plausible that a much higher proportion of operating expenditure than the 10% figure could be related to providing the government service. It is suggested that 10% be used as a starting point, and be subject to a more detailed review by IPART in advance of all future determinations.

8. Do you have evidence that you have not already provided to IPART that could be relevant to IPART's draft decision to retain valley-based pricing in preference to moving to regional pricing? If you do, please provide that information to IPART.

Continuation of valley based pricing is strongly supported, consistent with prior submissions from the IIOs.

9. Do you have evidence that you have not already provided to IPART that could be relevant to IPART's draft decision to maintain the existing 40:60 fixed-to-variable tariff structure in the Lachlan Valley? If you do, please provide that information to IPART.

Lachlan Valley is outside the geographic scope of the three IIOs.

10. Do you have any evidence that you have not already provided to IPART that could be relevant to IPART's draft decision to maintain the current fixed-to-variable ratios for licenced environmental water holders? If you do, please provide that information to IPART.

IPART's commentary in the Draft Decision is acknowledged, and further consideration needs to be applied prior to any change.

11. Do you support applying a uniform cap on price increases to all valleys? Is there justification to apply a different cap for some valleys, such as the North Coast and South Coast?

North Coast and South Coast are outside the geographic scope of the three IIOs.

12. What effects would our proposed 10% (plus inflation) annual cap on price increases have on you? How would these differ from a 5% (plus inflation) annual cap?

A 10% (plus inflation) annual price cap would have significant and permanent effects on farm business sustainability within the region. While the impacts of a 5% cap would also be material, they would be less significant than a 10% annual price cap. As noted in the Key Recommendations, the IIOs strongly recommend that IPART adopt an annual price cap of 5% due to the significant social and economic impacts higher price increases will have.

13. Are there any alternative approaches for price setting consistent with cost-reflective pricing that you would like the Tribunal to consider for the Final Report?

The IIOs do not support an alternative approach for the Final Report, primarily due to time constraints. The IIOs do support a broader review of cost-reflective pricing aligned with the NSW Government review, with both to be undertaken prior to the next determination.

14. What are your views on the approach of escalating the incremental cost of water treatment by the CPI for setting the filtered water usage charge in the Fish River Water Supply Scheme?

Fish River is outside the geographic scope of the three IIOs.

15. Do our draft decisions on cost pass-throughs and true-ups achieve an appropriate allocation of risk between WaterNSW and customers?

No. The proposed true-ups would provide WaterNSW with unfair and unreasonable upside cost protection, reduced incentives to control costs, and tacit pre-approval for expenditure increases. They also ignore

WaterNSW’s capacity to absorb risk across its broader business. They will only serve to further exacerbate the farm affordability issues that raised throughout this submission.

16. Do stakeholders consider it appropriate to manage WaterNSW's revenue risk through a demand volatility adjustment mechanism (DVAM), and does the proposed +5% threshold achieve an appropriate balance between managing revenue risk and limiting price volatility for customers?

Introduction of a DVAM is opposed. It could increase customer bills significantly after a prolonged dry period, exacerbating the social impacts of price increases.

17 and 18. What are your views on our approach for assessing how potential price increases could affect irrigated farms and local water utility customers? Do you support the methodology and underlying assumptions used for the agricultural impacts analysis?

The IIOs commend IPART for considering the affordability impacts of proposed price increases. Analysis needs to focus on net profitability impacts across a variety of allocation scenarios, include consideration of farms that are financially leveraged and incorporate latest cost increases.

19. Can you provide examples of cost pressures you have faced, and describe their impact on you? How should additional cost pressures be considered when examining irrigated farms' capacity to pay?

Irrigators are facing cumulative cost pressures across diesel, pumping, fertiliser, labour, machinery, transport and water allocation prices, alongside reduced consumptive water availability and higher climate variability. IIOs note additional and increasing cost burdens complying with changed government policies. These pressures should be assessed together, not in isolation, because many farm businesses have limited ability to pass on costs and are already facing squeezed margins where commodity prices have not increased in line with input costs.

20. What are the factors we should consider when examining affordability for local water utility customers?

The IIOs note that affordability concerns are a common issue across NSW, for both irrigators and local water utility customers.

21 and 22. What are your views on the draft performance measures and targets? Could these be improved? If so, please suggest measures and/or targets that would improve the quality of WaterNSW's reporting and transparency. WaterNSW proposed a number of performance measures that we are not including in our draft recommendations. For example, we did not include WaterNSW's proposed measures for the WaterInsights portal or reporting of data breaches. Do you consider any of these important for transparency, accountability or customer outcomes?

Draft measures should be strengthened to require achievement of annual valley level expenditure targets and achievement of water delivery and efficiency targets. Exclusion of targets related to WaterInsights portal is recommended.

2.2 RESPONSE TO IPART RECOMMENDATIONS

This section outlines high level responses to the four recommendations in the Draft Decision. Further detail is provided in future sections of this submission.

1. That the NSW Government undertake a review of the longer-term sustainability of the regional and rural water sector in NSW, including whether WaterNSW's operating model, regulatory framework and funding arrangements remain fit for purpose, to ensure the sector is financially sustainable, affordable for customers, and capable of meeting future water security and environmental challenges.

The IIOs support this review given unresolved issues identified by IPART in current and previous reports. This recommendation should be strengthened by directly incorporating IIO and customer participation, as IIOs have direct knowledge of customer requirements and the social impacts of water reform.

2. That WaterNSW consider initiating a working group with NSW Treasury and NSW DCCEEW that would develop a program logic (the link between costs, activities and outcomes) for its core regulatory, strategy and engagement functions. Mapping the resources required to achieve its mandated outcomes would enable a clearer understanding of WaterNSW's key cost drivers, resourcing needs and opportunities to improve its efficiency.

The IIOs support this recommendation and would be open to participating in this working group.

3. That WaterNSW consider developing systems to provide a more transparent attribution of costs for its interactions with government. This would help to identify how those costs should be shared between customers and the NSW Government.

The IIOs support this recommendation.

4. That WaterNSW consider the merits of undertaking greater benchmarking of its costs and outputs against other utilities to better understand its cost drivers and present this analysis in future pricing proposals.

The IIOs support this recommendation.

3 Affordability and determination period

This chapter covers questions 1, 12, 17, 18 and 19 from the Draft Decision.

3.1 PRICE IMPACTS AND CUSTOMER AFFORDABILITY

IPART's Draft Decision is a significant improvement on WaterNSW's original proposal, but a 10% plus inflation annual cap remains too high while material uncertainty remains around efficient costs, government cost shares, ICD rebates and farm affordability.

Key recommendation: IPART should adopt an annual price cap of 5% due to the significant social and economic impacts of higher price increases.

The Draft Decision could still have serious and ongoing impacts on the sustainability of irrigation businesses across southern NSW. The IIOs acknowledge IPART has recognised affordability concerns raised by irrigators and limited the transition to full cost recovery. IPART's decision to cap annual price increases, require an additional NSW Government contribution, and consider an alternative 5% price path, is a more balanced and customer centric approach than the original proposal advanced by WaterNSW.

However, the proposed 10% plus inflation annual cap remains too high. This would still result in material, compounding and permanent increases to the price base. Once these costs are embedded into prices they are unlikely to be fully unwound even if later reviews find that expenditure was overstated, capital expenditure was not delivered, or that a larger share of costs should be funded by government.

These impacts are not theoretical. Under the Draft Decision, typical general security bills would increase by 14.2% in the Murray Valley and 24.2% in the Murrumbidgee Valley by 2028-29, excluding inflation which is likely to be 10% to 15% or more. These price increases would also come after the 2025-26 price increase and would be imposed when many irrigators are already struggling to manage higher input costs, low allocations and broader water market uncertainty.

The IIOs consider that a lower price cap is warranted while key matters remain unresolved. A 5% plus inflation cap would still represent a significant increase for primary producers but would better protect irrigators while IPART, WaterNSW and the government complete further work on regulatory structures, efficient expenditure, customer cost shares, government service costs, ICD rebates, farm affordability and customer outcomes. Several of these matters could materially reduce the customer share of WaterNSW's revenue requirement if assessed differently in the next determination so a cautious approach to increases should be applied.

A lower cap would not prevent WaterNSW from recovering efficient costs over time although it would recognise that customers should not fund rapid price increases before certainty can be established regarding the cost base, allocation of costs and customer impacts. Where there is a temporary gap between affordable customer prices and WaterNSW's assessed efficient costs, the best short term response should not be an immediate transfer of costs to irrigators.

The IIOs therefore recommend that IPART adopt a lower price path in the Final Decision of no more than 5% plus inflation while the broader reform pathway is progressed. This would provide a fairer balance between WaterNSW's revenue needs and the affordability constraints of the customers who ultimately fund the system.

3.2 FARM AFFORDABILITY

Ricardo's analysis is a useful start, but further modelling is needed to reflect real farm conditions, cumulative cost pressures and potential dry year affordability.

The IIOs commend IPART for continuing to explore affordability analysis because it recognises the impact of WaterNSW price increases could be material at a farm business level. The IIOs also acknowledge and welcome the Ricardo analysis use of net margin rather than gross margin, which is a more appropriate measure of the capacity of irrigated farms to absorb additional costs.

However, the analysis remains incomplete and should not be treated as a sufficient basis for determining that irrigated farm businesses can absorb the draft price path of 10% per annum.

ENHANCEMENTS TO MODELLING

The scenarios modelled by Ricardo do not align with the Draft Decision and the IIOs welcome advice that further modelling would occur based on price increases of 5% (plus inflation) and 10% (plus inflation).

The modelling focuses on representative or average farm businesses. This is useful for establishing broad indicators but runs the risk of not adequately capturing the distribution of impacts across farms with different cost structures, soil types, debt levels, water access, crop choices or exposure to allocation markets.

The key affordability question is not whether an average farm remains viable in an average year. It is whether a material proportion of farm businesses are placed at risk under realistic dry year, high cost or low margin scenarios.

ALLOCATION SCENARIOS

The IIOs support IPART testing a broad range of allocation scenarios, including 0%, 20%, 50% and 100% allocations. These scenarios are not extreme when assessed against recent experience in southern NSW.

RMCG has analysed allocations received by General Security entitlements in the Murray and Murrumbidgee valleys over the last 30 years. The lowest third of years resulted in average allocations of approximately 13% in the Murray and 25% in the Murrumbidgee. This means a 20% allocation scenario is well within the range of normal dry year conditions experienced by irrigators in southern NSW. A 0% scenario is also not outside the realm of possibility.

Of the scenarios being modelled, 50% is closer to the median level of allocations experienced within the Murray (62%) and Murrumbidgee (61%) valleys.

This is particularly relevant given the current conditions being experienced across the southern Basin. Significant rainfall will be required for system storages to recover to full supply levels, with impacts on general security allocations in the next water year already anticipated.

As IPART is considering prices over a multi-year determination period, lower allocation scenarios provide a more realistic indication of affordability risk than modelling based on average water availability. Lower allocations can reduce production, increase reliance on temporary allocation markets and increase exposure to high water prices at precisely the time farm cashflows are most constrained.

FINANCING COSTS

Further modelling should also include financing costs. Farm businesses have different capital structures, but it is not realistic to assume that all farms own all relevant capital or are unaffected by debt, equipment finance, leasing or other financial obligations.

In RMCG’s experience, financing costs of around 5% to 10% of revenue are not unusual for farm businesses. The IIOs therefore recommend that IPART includes a financing cost sensitivity, with 10% of revenue used as a reasonable scenario for testing.

As an illustrative example, a 400 hectare farm, generating revenue from an assumed yield of 11 tonnes per hectare at $406 per tonne, would have total annual revenue of approximately $1.786 million. A financing cost of 10% of revenue would equate to $178,600 per year. This should be deducted from net farm profit as a sensitivity. It should not be treated as an upper bound, but as a reasonable test of how financial leverage can affect capacity to absorb additional WaterNSW charges.

RECENT INPUT COST INCREASES

Farm affordability should also be assessed in light of recent input cost increases. Irrigators are currently facing higher costs across diesel, pumping, machinery, fertiliser, transport and water.

Recent cost movements are material. Automotive fuel has increased significantly over the last year, diesel has experienced sharp short term increases and the IIOs have reported transport costs have also risen by up to 50%. Fertiliser costs have increased materially, with urea prices reported to have increased from around $800 to $1,400 per tonne since February 2026.

If these increases cannot be fully incorporated into the Ricardo modelling before the Final Decision, IPART should clearly identify them as a sensitivity and avoid drawing firm conclusions that farms can absorb further price increases. This is important because many irrigators are price takers in national and international commodity markets and cannot pass through higher water and other input costs to customers.

The IIOs would welcome the opportunity to review draft outcomes of the revised Ricardo modelling prior to it being provided as a final report to IPART.

3.3 DETERMINATION PERIOD

A two year determination period would encourage earlier customer engagement, reduce the risk of locking in unresolved issues, and facilitate a response to key pricing issues with stronger evidence.

Key recommendation: IPART should adopt a two year determination period.

The IIOs do not support IPART's Draft Decision to adopt a three year determination period. A shorter two year period would be more appropriate given the number of material issues that remain unresolved, including ICD rebates, government service cost attribution, cost shares, farm affordability, corporate expenditure, customer value and WaterNSW's broader operating model.

A two year period would provide a strong incentive for WaterNSW to engage with customers sooner. WaterNSW's original proposal was not supported by customers and the Draft Decision reflects IPART's analysis rather than a customer supported proposal from WaterNSW. Setting prices for a further three years risks creating a four year period in which structural reforms and material price increases have occurred without being properly informed by customers.

If IPART chooses to retain a three year period it should only do so with clear conditions. These should include a defined reform work program, early WaterNSW customer engagement, valley level cost and price reporting, a review of ICD rebates and a clearer process for reassessing cost shares before the next determination.

A four year determination period should not be adopted. This is too long given the uncertainty in the current framework and would risk delaying implementation of important reforms. It would increase the risk irrigators pay higher charges for capital or corporate expenditure that is not delivered or not linked to customer outcomes.

The IIOs therefore recommend that IPART adopt a two year determination period. If IPART proceeds with a three year period, the Final Decision should outline a timeline for how the period is to be used actively to resolve the outstanding issues rather than to wait until WaterNSW's next price proposal.

4 Efficiency, transparency and customer value

This chapter primarily covers questions 2, 21 and 22 from the Draft Decision, and indirectly supports responses to additional questions.

4.1 VALLEY LEVEL COST AND PRICE TRANSPARENCY

IPART's addendum is welcome but more transparency is needed on modelling, corporate allocations and local versus centralised expenditure.

Key recommendation: IPART should retain valley based pricing and reject regional averaging or cross subsidies between NSW valleys.

The IIOs acknowledge and welcome IPART's release of additional valley level expenditure information following the public forum. This is constructive and provides stakeholders with an improved basis for understanding the expenditure underpinning the Draft Decision.

However, the addendum does not resolve all of the transparency concerns raised by the IIOs. It does not provide the full pricing model and reveals significant corporate and planning cost increases which would benefit from clearer explanation and linkage to customer outcomes.

The distinction between local valley expenditure and centralised expenditure remains particularly important. There are significant opportunities to increase the transparency of costs and services received at a valley level, including how the costs of central functions are allocated to valleys and the customer service benefits these central functions provide. Without this, it remains difficult for IIOs to explain to customers what higher WaterNSW prices will deliver.

The IIOs recommend that IPART requires WaterNSW to publish annual valley level reporting over the determination period. For both operating expenditure and capital expenditure, this should include the customer share and government share of actual expenditure compared with the allowance used to set prices. Reporting should identify material variances and explain whether they reflect timing differences, underspend, changed project scope or genuine cost changes. At the very least, this information should be provided confidentially to Customer Advisory Groups (CAGs).

Improved transparency would support future reviews of efficient expenditure, cost shares, ICD rebates and government service costs. The addendum is a useful first step but customers paying higher prices should receive additional information so they have an understanding of why their costs are increasing and what service levels they can expect to experience. The Draft Decision addendum notes that corporate systems operating expenditure is increasing by 32% for the Murray Valley and 234% for the Murrumbidgee Valley, although it is unclear to what this relates.

Customers should not fund higher expenditure unless WaterNSW can demonstrate deliverability and tangible customer outcomes at the valley level.

4.2 CUSTOMER OUTCOMES

Higher price levels should be conditional on delivering higher service performance.

The IIOs consider that WaterNSW should demonstrate how proposed expenditure will improve outcomes for rural customers, at the level of their individual valleys. This should include clearer reporting on service reliability, water delivery efficiency, customer service, asset condition and delivery against agreed valley priorities.

It is crucial that WaterNSW links the proposed 40% increase in capital expenditure to service improvements in each valley. Customers need to understand how they will receive enhanced value for money when their bill levels are rising significantly.

IPART should require WaterNSW to report annually on customer outcomes by valley, including actual delivery against approved expenditure, material variances and the practical service benefits achieved. Achieving customer expectations would then require the achievement of capital expenditure targets. This would strengthen accountability and help future engagement focus on value, not only cost recovery.

4.3 DIGITAL AND CORPORATE SYSTEMS EXPENDITURE

Digital and corporate expenditure should only be customer funded where WaterNSW demonstrates clear customer value, offsetting efficiencies or an appropriate government share.

The IIOs support IPART's decision to exclude expenditure on the WaterInsights portal. While it provides some use to customers, the additional expenditure should not increase customer bills unless IPART can satisfy itself that direct customer value will be achieved from the specific improvements proposed. IPART's Draft Decision noted that the WaterInsights portal was not one of the top capital projects supported by customers.

Technology investment should reduce costs over time. As noted above, the Draft Decision addendum notes that corporate systems operating expenditure is increasing significantly, including by 234% for the Murrumbidgee Valley. It is unclear to what this relates.

Where digital systems provide broader public benefits such as information for recreational users, riparian landholders, local government or those who aren't customers, an appropriate government share should be applied to recognise the benefits experienced by community members generally.

5 Cost shares

This chapter primarily covers questions 6 and 7 from the Draft Decision.

5.1 GOVERNMENT SERVICES AND PUBLIC BENEFITS

IPART's recognition of a government service activity is supported but the proposed allocation is likely too low given WaterNSW's government facing and regulatory functions.

Key recommendation: IPART should increase the government cost share to at least 10% pending a review in the next determination period.

The IIOs support IPART's Draft Decision to establish a new cost share activity for WaterNSW providing government services, with a 100% government share. This is an important and necessary improvement because customers should not fund activities undertaken for government, public policy purposes or broader community outcomes. However, the assigned proportion of costs (7.5%) is too low.

WaterNSW's role increasingly encompasses regulatory interaction, compliance with evolving legislative and policy requirements, environmental management obligations and participation in whole of system water planning activities. These functions are not always readily separable using historic cost allocation frameworks. WaterNSW has acknowledged within various recent CAG presentations on expectations for it to perform numerous non-commercial functions, such as fishways, are contributing to this complexity.

Given this emerging complexity, the IIOs consider it plausible that a higher proportion of WaterNSW's operating expenditure relates to government service activities than is currently recognised. The IIOs therefore recommend that IPART adopt at least 10% as a conservative starting point for the Final Decision, subject to further refinement through a more detailed review prior to the next determination.

Such a review would benefit from clearer activity definitions, improved cost classification protocols and consistent application across valleys. This would improve transparency for customers, provide greater certainty for WaterNSW and reduce the risk of ongoing disputation over cost attribution.

5.2 COST SHARE SETTINGS

A revised counterfactual without revised cost shares risks becoming a conceptual improvement only, rather than a practical change in how costs are allocated between customers and government.

Key recommendation: IPART should lower the cost share for several activities that achieve public benefit consistent with the revised counterfactual.

The IIOs acknowledge IPART's movement on cost shares including its revised approach to the counterfactual and its recognition that some costs should be borne by government. However, further refinement is required.

IPART's revised counterfactual recognises that many WaterNSW activities would continue even without irrigation customers. However, the Draft Decision does not translate this revised counterfactual into materially changed cost shares. As the counterfactual has changed, the cost shares should also change.

Many WaterNSW costs are not caused solely by consumptive users. Some costs are driven by environmental obligations, public safety, government policy, community expectations, climate adaptation and system wide water management. Other costs remain even if there are no irrigators in a valley because dams, rivers, environmental assets and community water management obligations still need to be managed.

Cost shares are unlikely to remain static over time. As consumptive water availability declines and environmental management becomes more deliberate and active, the share of benefits changes. Cost shares should reflect these changes rather than retaining a fixed historical split.

The IIOs consider that the following activities should have a lower customer share:

- **Water delivery and other operations**: Lower customer share as costs support environmental water, basic landholder rights and broader system management.
- **Flood operations**: Lower customer share reflecting significant community and public safety benefits.
- **Hydrometric monitoring**: Lower customer share as monitoring is increasingly used to optimise environmental outcomes, support government policy, inform public reporting, and support riparian landholders flood management preparedness and response.
- **Water quality monitoring**: Lower customer share reflecting public health, environmental and broader waterway management benefits, noting water quality issues are not caused by irrigation.
- **Dam safety compliance**: Lower customer share consistent with IPART's recognition of broader public safety benefits.
- **Environmental planning and protection**: Lower customer share is warranted for fishways and other projects with significant environmental or public benefit drivers.
- **Corporate systems**: Lower customer share for systems that support government, public information, environmental management or centralised corporate functions rather than direct valley services.

The IIOs recommend that IPART identify cost share reform as a priority issue for further reform to embed the new counterfactual into revised cost shares. This should include transparent activity definitions and consultation with customers before the next determination. Until that work is complete, IPART should avoid locking in price increases that may later be shown to include costs more appropriately funded by government.

As noted above, WaterNSW has recognised that an increasingly significant cost driver is its non-commercial services such as fishways, environmental flows, water quality monitoring and land management.

6 ICD rebates

This chapter primarily covers question 3 from the Draft Decision.

6.1 AVOIDED COST METHODOLOGY

The avoided cost methodology remains reasonable in principle, but its current application is too narrow and insufficiently transparent.

The IIOs support the use of an avoided cost methodology for ICD rebates. Customers within irrigation districts should not pay WaterNSW for costs that WaterNSW avoids because the IIO performs the relevant activity. This remains the right principle and should continue to underpin the rebate approach.

The current application of the methodology does not reflect the activities performed by modern IIOs. This includes customer facing, operational, metering, compliance and reporting functions that reduce or avoid costs for WaterNSW, WAMC and government agencies.

6.2 SCOPE OF AVOIDED COSTS

The scope of avoided costs should be freshly reviewed from first principles and should include additional cost categories where IIOs perform functions that WaterNSW or government would otherwise need to undertake.

Key recommendation: IPART should increase ICD rebates in line with general price increases and commit to a broader, standalone review in the next determination period.

A clearer and more contemporary ICD methodology would provide greater certainty for IIOs regarding the services they deliver for their customers. The current scope of avoided costs is too narrow. In addition to customer billing, metering and compliance, data transfer and telemetry, IPART should consider how the IIOs help WaterNSW avoid costs in relation to the following services:

- Customer support
- Water delivery and other operations
- Hydrometric monitoring
- Water quality monitoring
- Environmental water delivery
- Customer facing and compliance facing corporate systems
- Flood response and reporting.

The IIO model creates efficiencies for WaterNSW by consolidating many individual customers into a smaller number of interface points. This reduces the need for WaterNSW to provide equivalent customer systems, direct billing, compliance activity and operational coordination for individual irrigators within an irrigation district.

Specifically, IPART should review how the avoided regulatory depreciation of telemetry assets is included within the ICD rebate calculation. At present, it appears as if only the financing cost of these assets is included within the calculation. It would be appreciated if IPART could respond to this consideration in its final decision.

6.3 REBATE REVIEW AND INDEXATION

ICD rebates should not decline in real terms while WaterNSW's relevant operating, customer, compliance, digital and corporate costs are increasing.

The IIOs recommend IPART commits to a standalone review of ICD rebates before the next determination. The review should assess both scope and quantum, including whether avoided costs differ by valley.

Pending that review, rebates should not be held flat or decline in real terms. As an interim measure, rebate levels should increase at least in line with relevant WaterNSW cost increases or the approved annual price increase.

7 Risk allocation

This chapter primarily covers questions 4, 5, 15 and 16 from the Draft Decision.

7.1 AVOIDED COST METHODOLOGY

The WACC true-up is opposed because it would increase customer charges without any direct service benefit.

Key Recommendation: IPART should reject the WACC true-up and other one-sided true-ups.

The IIOs support IPART's Draft Decision not to transition the trailing average cost of debt. This is consistent with IPART's statement that the WACC is a forward looking benchmark rather than a cost passthrough mechanism.

For the same reason the IIOs do not support the proposed WACC true-up. The decision to set prices for only one year in 2025-26 was made because IPART did not have sufficient confidence in WaterNSW's proposed expenditure and supporting information. Applying a retrospective WACC true-up would partially unwind the customer protection provided by the 2025 Determination.

The true-up would increase customer prices without delivering any corresponding improvement in service levels, capital delivery or customer outcomes. It simply increases the revenue requirement recovered from customers, with additional revenue available for either debt reduction or dividends.

The Draft Decision notes the strong financial performance of WaterNSW, and IPART should undertake sensitivity analysis regarding the impact (or otherwise) of the WACC true-up on WaterNSW's core financial indicators. If there are financeability concerns, these should be addressed prospectively through efficient expenditure assessment, appropriate government funding where appropriate and improved transparency rather than retrospective recovery from customers.

7.2 TRUE-UPS AND PASSTHROUGHS

The proposed cost true-ups are one sided and weaken incentives to efficiently manage costs.

The IIOs support IPART's Draft Decision not to adopt a broad suite of cost pass-throughs for WaterNSW. However, the draft approach does not achieve an appropriate allocation of risk between WaterNSW and customers.

Proposed pass-throughs would provide asymmetric protection, allowing certain future cost increases to be recovered from customers without providing equivalent protection where costs are lower than expected or offset by efficiencies elsewhere in WaterNSW's operations. This asymmetry weakens incentives for cost control and expenditure prioritisation.

This issue is particularly relevant for operating licence and taxation costs. Where such costs are eligible for true-up, there is a risk that expenditure is effectively pre-approved after the fact, rather than being subject to scrutiny and engagement before costs are committed and incurred.

As a large and diversified organisation, WaterNSW is better placed than individual irrigators to manage some risks across its broader business.

7.3 DEMAND VOLATILITY ADJUSTMENT MECHANISM

The DVAM should not be introduced.

Key recommendation: IPART should not include the DVAM in its Final Decision.

Stakeholders have not yet been provided with sufficient information or modelling to assess customer impacts of the DVAM. This limits confidence in its suitability at this stage, and the IIOs therefore strongly oppose the introduction of a demand volatility adjustment mechanism.

The DVAM operates like a revenue cap implemented between regulatory periods. This is concerning because customers have strongly opposed revenue caps that transfer demand risk from WaterNSW to its customers. The current arrangements retain some demand risk with WaterNSW, which supports incentives for efficient operational and expenditure management.

Further clarity is also required on whether the DVAM would apply to total revenue or only volumetric revenue, or by valley or overall. This distinction is material to customer impacts.

The timing of DVAM adjustments could be particularly harmful. If lower water use during dry periods leads to later price increases, customers could face higher bills after periods when farm cashflows, allocations and production have already been under pressure. This would exacerbate affordability impacts. If the next few years reflect a drier period and lower allocations, this would lead to significant price increases in the next regulatory period.

In accordance with IPART's methodology, demand forecasts are already based on the 20 year rolling average. This already acts as a risk mitigation for WaterNSW, as after a period of low rainfall the average demand used for balancing future revenue will be lower (and hence prices will be higher). A DVAM would exacerbate customer risk beyond the risk already embedded within the 20 year demand averaging.

8 Reform pathway

This chapter primarily covers questions 1 and 13 from the Draft Decision.

The Final Decision should protect customers now while establishing the work program needed to resolve the pricing framework before the next determination.

Key recommendation: IPART should recommend customer and IIO participation in the review of the longer term sustainability of the regional and rural water sector in NSW.

The IIOs do not propose a major alternative price-setting approach for IPART's Final Decision. Any broader change to cost reflective pricing should be considered through a separate review which is aligned with the NSW Government review of WaterNSW's operating model and supported by detailed customer engagement.

IPART's Draft Recommendation 1, that the NSW Government review the longer-term sustainability of the regional and rural water sector, is important and should be retained. However, the IIOs support strengthening this recommendation by expressly requiring customer and IIO participation. IIOs engage directly with irrigation customers and hold practical information about service delivery, customer affordability, avoided costs and regional social impacts. Their involvement is necessary for the review to produce workable and customer informed outcomes.

The Final Decision should outline a clear reform pathway for the determination period. This should include review of ICD rebate methodology and scope, government service cost attribution, customer and government cost shares, farm affordability methodology, corporate and digital expenditure, environmental water holder tariff structures and valley level cost and performance assurance.

WaterNSW should commence customer engagement early in the determination period rather than waiting until the next formal price review. Engagement should be valley based and supported by transparent cost information including the link between costs, activities, service levels and customer outcomes. This allows customers to understand what they are being asked to fund and will enable meaningful input before expenditure is embedded in the next revenue requirement.

Material uncertainty remains around cost shares, ICD rebates, government services, DVAM, affordability and customer value. Customers should not be asked to fund rapid price increases while these matters remain unresolved. The IIOs therefore recommend that IPART adopt a lower price path in the Final Decision for a shorter regulatory period (2 years), reject the DVAM and WACC true-up, and use the determination period to require that WaterNSW build a stronger customer-informed evidence base for the next review.

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Document review and authorisation

Project Number: #3043

Doc Version	Final/Draft	Date	Author	PD Review	BST Review	Release approved by	Issued to
1.0	Final	11/05/2026	J. O'Shea	G. Warne	B. Gravenor	G. Warne	IPART, on behalf of the three IIOs

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