IPART Independent Pricing and Regulatory Tribunal | NSW

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Joanne Chong
Commissioner
Productivity Commission

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By website: pc.gov.au

Dear Commissioners

Submission to the National Water Reform 2026 inquiry – Interim Update 1

The Independent Pricing and Regulatory Tribunal of New South Wales (IPART) welcomes the opportunity to provide feedback on the Productivity Commission's Interim Update 1 to the National Water Reform 2026 inquiry.

Our earlier submission outlined our role as an independent economic regulator and drew on recent price reviews across urban and bulk water services. The content of Interim Update 1 reflects many of the issues we raised, particularly in relation to pricing, economic regulation, and long-term service sustainability. We support the continued focus on these areas as central to achieving secure, resilient and sustainable water services.

Independent economic regulation

IPART's role is to determine maximum prices by weighing the matters set out in section 15(1) of the IPART Act. IPART supports the Interim Update 1 finding that independent economic regulation provides stakeholders with confidence that water customers should only pay prices that reflect efficient costs.

Interim Update 1 emphasises the role that deliverability plays in regulators' decision-making, including decisions about whether to defer or allow significant expenditure. Interim Update 1 refers to IPART's review of Sydney Water prices, in which we increased the amount of efficient expenditure between the draft and final reports.

In response to our Draft Report, Sydney Water submitted that our draft decision would impact its capacity to deliver infrastructure for housing supply and that basing growth expenditure on the Sydney Housing Supply Forecast (SHSF) 2023 would not provide adequate funding to serve population growth. After releasing our Draft Report, the Secretary of the NSW Department of Planning, Housing and Infrastructure wrote to IPART providing an update on the 2025 SHSF and advised that the updated 2025 SHSF for Greater Sydney is higher than the 2023 forecast used in the draft report.

For our Final Report, we considered the additional information provided by Sydney Water and other stakeholders in response to our Draft Report. This included updated dwelling completion forecasts and additional forecast aggregate total housing supply by the Department of Planning Housing and Infrastructure. Adjustments between the draft and final decisions reflected the Tribunal's decisions on efficient expenditure.

Cost of living concerns, rising costs and risks to water security

Affordability is critical for essential services like water and wastewater. In our recent review of maximum prices for Sydney Water, IPART increased maximum prices to fund efficient expenditure to deliver reliable and safe water services. While the price increases were less than Sydney Water proposed, the revenue that our maximum prices will generate over the next 5 years should allow Sydney Water to fund its efficient expenditure plan including by constructing new and replacement assets to meet customer needs and performance standards. It should also allow Sydney Water to replace assets at the end of their life, provide safe drinking water and meet its environmental performance obligations.

The NSW Premier asked IPART to consider the cost-of-living impact of the price determination and the effectiveness of existing rebates, including whether rebates would adequately support customers who may be disproportionately impacted by any price increases. IPART found that the pensioner rebate remains effective in maintaining water and wastewater affordability for households served by Sydney Water that are currently eligible for the existing rebate. However, there are low-income households that may still face issues with affordability. IPART made 7 recommendations to the NSW Government on how to improve the effectiveness of existing rebates to provide greater support to those that are most in need of financial support.

Financial resilience investment capacity

Interim Update 1 discusses accountability for the financial resilience and sustainability of service providers and regulatory approaches around Australia (Interim Update, pp 10-11). As discussed, IPART considers the impacts of its pricing decisions on the financial performance, position and capacity of the businesses we regulate. Our financeability tests use several financial ratios as an indication of overall financial resilience. We note that while performance against a single indicator may temporarily fall below a benchmark, it is not necessarily evidence of broad financial concern. This was the case in our 2020 Determination of Sydney Water's maximum prices, where FFO/net debt increased from 6.6% to 6.8% over the 4-year determination period. The other ratios we use (interest cover, gearing) were well within the benchmarks and we considered that Sydney Water's overall financeability was generally sound.

Defining affordability as a social equity objective

Interim Update 1 indicates that governments should set policy objectives upfront, including social equity objectives and service level expectations, so that regulators and utilities can focus on delivering services efficiently. This approach may help clarify the respective roles of pricing, targeted support and government funding but it is not the only approach. For instance, service level expectations could form part of an operator licence. In either case, effectiveness would depend on how clearly objectives and service standards are specified, evidence of customers' willingness to pay, how well they are supported by cost-benefit analysis and how consistently they are applied across jurisdictions.

Interim Update 1 also states that affordability is “fundamentally a social equity objective, not a general basis for suppressing average water prices” (Interim Update, p 10) and indicates that governments should define this objective so that regulators and utilities can focus on delivering services efficiently. It further notes that affordability concerns are generally better addressed through targeted concessions or community service obligations (CSOs) rather than through lower average prices for all customers. We agree with that assessment.

Two of our recent reviews illustrate the challenge of maintaining affordability when efficient costs increase significantly. In September 2024, the Water Administration Ministerial Corporation (WAMC), a statutory body that delivers water resource management functions on behalf of the NSW Government, and WaterNSW, a State Owned Corporation, lodged pricing proposals that would have resulted in substantial price increases to achieve full recovery of their stated costs. While we found that efficient costs were below stated costs, prices for some water sources would still have required substantial increases. These reviews demonstrate that affordability concerns can arise even where prices reflect efficient costs.

After weighing the relevant statutory matters under s15 of the IPART Act, we decided to cap price increases in the WAMC and WaterNSW rural bulk water reviews to balance social impacts, service reliability and financial sustainability. We also recommended the NSW Government undertake a review of the long-term sustainability of NSW’s regional and rural water sector.

Recent IPART reviews recognise that measures to improve affordability can delay cost recovery but help manage bill shock when costs rise sharply. Our decisions aim to balance affordability, service reliability and long-term sustainability. We welcome the Productivity Commission’s contribution to this discussion and consider that clearer social equity objectives would assist future regulatory decisions.

Basic level of service

A key consideration is whether social equity objectives should distinguish between essential town water services and bulk water services for irrigators. Interim Update 1 focuses primarily on customers of town water and wastewater services. However, we have also observed affordability issues arising for irrigators in our water pricing reviews. The differences between customer groups have implications for how regulators consider issues such as service scope, affordability and exposure to commercial risk.

The discussion in Interim Update 1 about the Basic Level of Service (BLOS) focuses on defining measures for safe and reliable drinking water in small towns and communities. Interim Update 1 indicates that defining a BLOS would establish the outcomes that providers should deliver and the circumstances in which government support may be justified. This proposal is relevant to regional and remote town water services, where service quality, reliability and drinking water outcomes are central considerations. We understand that the BLOS is not intended to target bulk water services supplied to irrigators. As such, it is important that any BLOS measures are targeted at the appropriate service layer and do not result in unnecessary costs for irrigators. If governments develop a BLOS framework, it would be important for it to:

- target the appropriate layer of the value chain
- specify the relevant service outcomes, and the customers or communities to whom they apply
- outline how local circumstances may warrant adjustments
- define the arrangements for measuring, reporting and funding delivery against the standard.

Ambiguity or inconsistent application could undermine the transparency and accountability benefits of such a framework.

Interim Update 1 discusses CSO payments as a potential mechanism for funding services where full cost recovery is not feasible. It states that CSO payments should be designed to ensure access to a BLOS, be sufficient to support the affordability of the relevant service, be based on a credible estimate of efficient service costs and be calculated using a predictable method. These principles are relevant to issues we have considered in our WaterNSW rural valleys reviews, although the context is broader than regional town water services. For example, affordability considerations are particularly acute on the North Coast and South Coast, where bulk water prices had historically been set below full cost recovery levels. Prices for the North Coast and South Coast rural valleys remained constant in real terms in the previous determination period and were increased by 10% per year plus inflation in our current determination. In both cases, prices are well below cost recovery levels, and these valleys are funded by CSO payments from the NSW Government.

A more formal CSO framework could provide greater certainty and transparency for governments, service providers and regulators by defining the level of service to be funded, the basis for calculating subsidies and the conditions under which support would be provided.

Improve charging for growth

We note the Productivity Commission's focus on developer charges in the context of improving charging for growth and supporting efficient investment decisions. We are currently undertaking a review of developer charges in New South Wales. The review will consider the maximum prices for connecting, extending or upgrading metropolitan water, wastewater, and recycled water services. We recently released an Issues Paper and expect the review to continue over the next 12 months.

We would welcome the opportunity to engage further with the Productivity Commission on these issues. Our contact officer for this matter is Sean Alexander, who can be contacted on .

Yours sincerely

15/07/2026

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Andrew Nicholls PSM
Chief Executive Officer
Signed by: