Attachment 05

Tariff structures for proposed prices

30 September 2024

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1. Introduction

1.1 Introduction

The structure of WaterNSW's prices has implications for how WaterNSW recovers the efficient costs of providing bulk water services and how customers are charged for these services. To set prices, the revenue requirement for WaterNSW's efficient costs, as discussed in the previous section, is converted into prices based on the tariff structures that are in place.

WaterNSW proposes, and IPART ultimately approves:

- The target revenue for each year of the determination period
- Forecast water sales, customer numbers and entitlements (as relevant) over the determination period; and
- The proportion of revenue to be generated from the respective charges.

Under the Cost Reflective Base Case (CRBC), WaterNSW proposes to set its bulk water charges based on a "two-part" (i.e. fixed and variable) tariff structure for most of its rural valley customers with the exception of the licensed environmental water who would transition to a fully fixed charge. Separate charges will apply to each valley (including Greater Sydney).

To calculate fixed and variable charges for the Rural Valleys, WaterNSW undertakes the following:

- Allocates the relevant valley's revenue requirement to the licensed environmental water' revenue requirement.
- The remaining revenue requirement is then allocated to the other rural valley customers ('standard water use customers').

To set fixed charges for the licensed environmental water, WaterNSW divides the licensed environmental water' revenue requirement by the fixed base (licensed environmental water' entitlements) to achieve an environmental valley-based charge. WaterNSW applies a premium factor [1] to determine the relative value of high security fixed charges to general security fixed charges.

- For the remaining rural valley customers:
    - To set **fixed** charges (also referred to as access or entitlement charges), WaterNSW first calculates the proportion of the revenue requirement to be recovered by fixed charges in

[1] HS premium is calculated using two factors that define the reliability of high security water relative to general security water. These factors include:

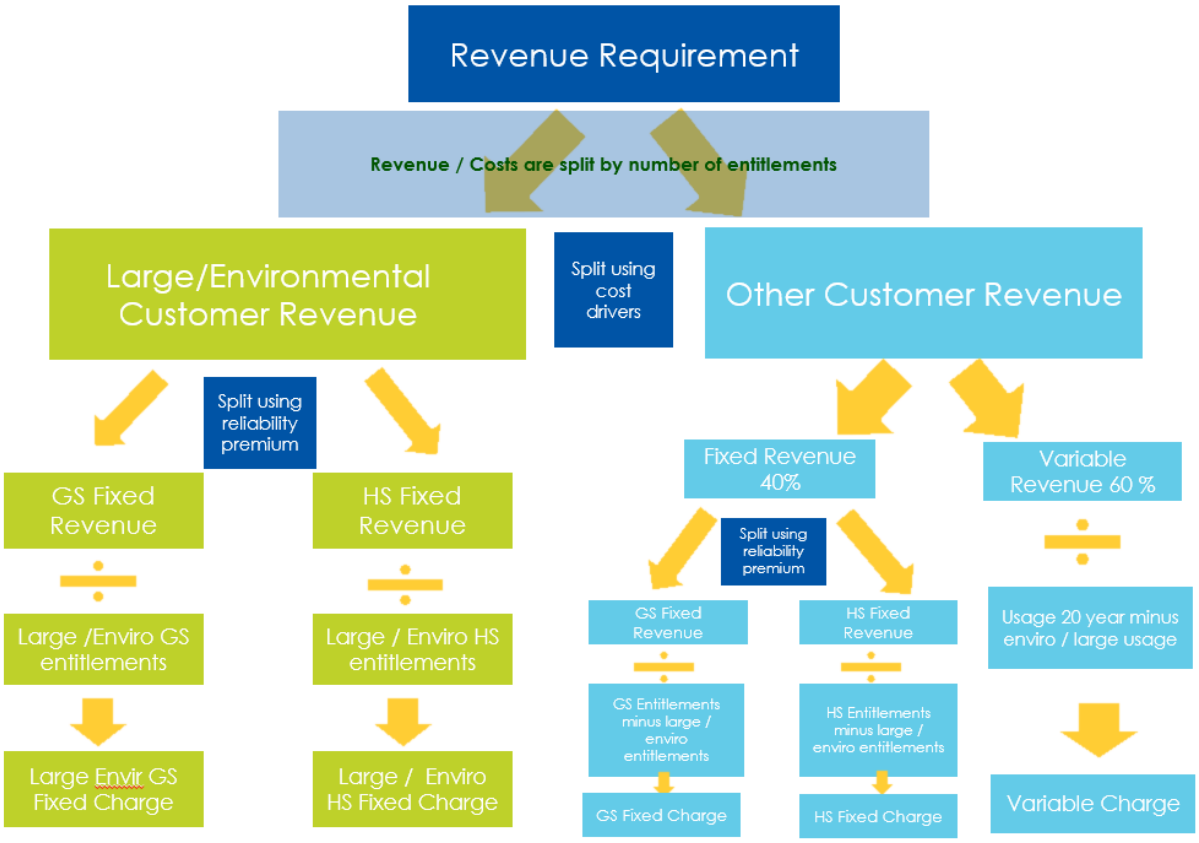
- security factor (WSP ratio) set by IPART which IPART considers to be a proxy for the security in high security entitlements arising from the differential allocation priority in the WSP and Water Management Act. The WSP ratio is derived from inputs in the relevant water sharing plan; and
- reliability ratio which considers the reliability of high security entitlements over general security entitlements based on historical allocation rates, especially in periods of low rainfall.

each valley (the numerator). We then divide the relevant revenue requirement by the fixed base (entitlements in the Rural Valleys and customers numbers in Greater Sydney) (the denominator) to achieve individual valley-based fixed charge. A second step occurs in the Rural Valleys to allocate fixed revenues into the revenue to be recovered through High Security and General Security entitlements.

- To set **variable charges** (also referred to as usage charges), a similar process is followed where WaterNSW first calculates the proportion of the revenue requirement to be recovered by variable charges in each valley (the numerator). We then divide the relevant revenue requirement by the forecast water usage in each valley (excluding licensed environmental water' usage) (discussed in attachment 21) (the denominator) to achieve individual valley-based variable charges.

This process is illustrated below based on a rural valley with a 40% fixed to 60% variable tariff structure with licensed environmental water on a fully fixed charge:

Figure 1 – Setting tariffs under a two-part tariff structure



Under the Rural Valley CRBC and the Greater Sydney Determination, WaterNSW proposes the following fixed to variable tariff structure splits:

Table 1 – Proposed fixed to variable pricing structures

Valley/Region	Fixed to variable pricing split (%)
Border	40:60 fixed to variable for standard water use customers 100 fixed charge for licensed environment water
Gwydir	40:60 fixed to variable for standard water use customers 100 fixed charge for licensed environment water
Peel	80:20 fixed to variable for standard water use customers 100 fixed charge for licensed environment water
Namoi	40:60 fixed to variable for standard water use customers 100 fixed charge for licensed environment water
Lachlan	80:20 fixed to variable for standard water use customers (increasing from the existing 40:60 fixed to variable split) 100 fixed charge for licensed environment water
Macquarie	40:60 fixed to variable for standard water use customers 100 fixed charge for licensed environment water
Murray	40:60 fixed to variable for standard water use customers 100 fixed charge for licensed environment water
Murrumbidgee	40:60 fixed to variable for standard water use customers 100 fixed charge for licensed environment water
Lowbidgee	100 fixed charge for standard water use customers 100 fixed charge for licensed environmental water
North Coast	90:10 fixed to variable for standard water use customers 100 fixed charge for licensed environment water
South Coast	80:20 fixed to variable for standard water use customers 100 fixed charge for licensed environment water
Hunter	60:40 fixed to variable for standard water use customers 100 fixed charge for licensed environment water
Greater Sydney	80:20 fixed to variable for most customers with a revenue cap for Large Customers (i.e. Sydney Water Corporation) 90:10 fixed to variable for most customers without a revenue cap

1.1.1 Key problems for customers under existing tariff structure for the Rural Valleys

The current high variable charge structure for rural valley customers has unintended consequences:

- 40% of costs are currently allocated to customers by entitlement holding, while 60% of costs are allocated to customers by historic water usage.

- The historic usage allocation of 60% of costs is an arbitrary allocation; customers do not have the same usage profile, for various reasons, voluntary and involuntary; and our costs are not driven by the yearly usage profile.
- As a result, high use customers cross subsidise low use customers for no other reasons other than they use more water when it is available.
- This is because the tariff structure calcs result in high use customers paying variable charges that are 4-5 times higher than the General Security Fixed Charge.

The current tariff structure results in highly unstable bills for larger customers who contribute to a substantial portion of our cost to serve, and rely on our infrastructure over the longer term.

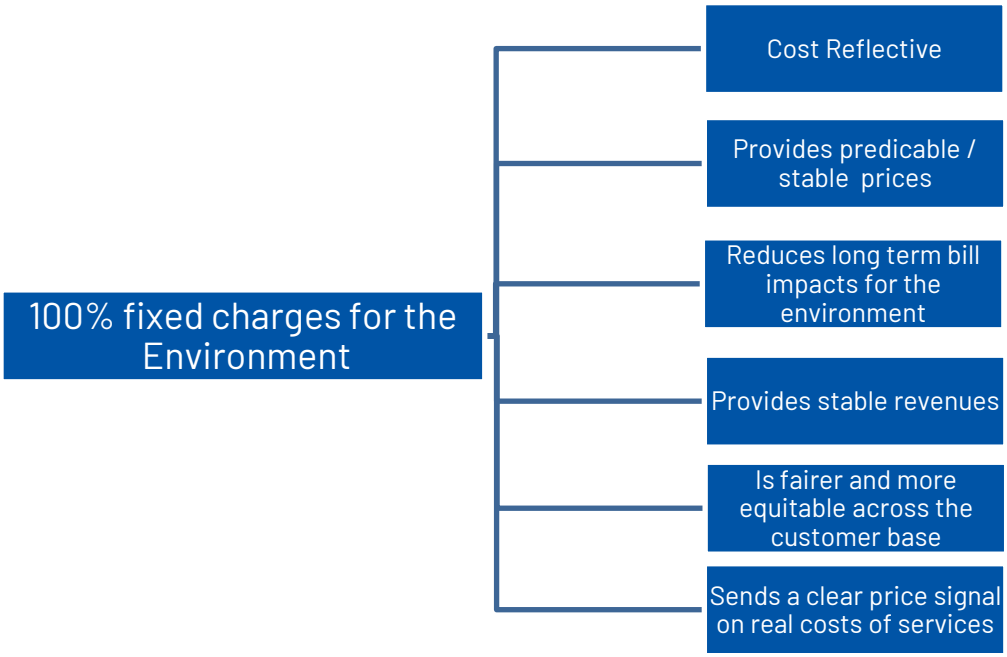
In contrast, low use customers / short term customers / sleeper licences are given a discount on their customer bill if they do not use their allocation under the current structure.

Whilst it is fair that high use customers should contribute to a fair proportion of the costs, it can be argued that these costs could be allocated to large customers in a more proportionate manner than the current system that penalises them for using more water, and results in unstable long-term bills.

We consider that the pricing mechanism should promote more stable bills for larger customers given their historic / reliable use of the service. This will promote their longer-term interests, whilst also addressing WaterNSW's revenue volatility concerns.

There is an opportunity to address this cross subsidy by transitioning large customers (such as the licensed environmental water) to a fully fixed charge. The benefits are summarized in Figure 2 below.

Figure 2 – Benefits of transition licensed environmental water to a fully fixed charge



1.1.2 Allocation of costs & revenue requirement to the licensed environmental water

Currently, our costs are spilt by the building block categories (operating expenditure, depreciation, return on capital, tax allowance, working capital, and other building block requirements such as the 'Unders and Over Mechanism') and the IPART activity codes (including customer support, metering, hydrometrics, and maintenance)

To set a 100% fixed charge for licensed environmental water usage, we must allocate the costs of infrastructure to licensed environmental water based on our understanding of the costs to serve. The approach must be fair and equitable, transparent, and easy to understand.

The vast majority of our costs consist of expenditure on asset maintenance, as well as funding costs related to capital expenditure on dams, weirs and other water supply infrastructure, WaterNSW considers that the cost of infrastructure could be pro-rated to the licensed environmental water based on the proportion of entitlements (licensed water) held for environmental purposes. This is because our water supply infrastructure would not exist but for the entitlements. The remaining revenue requirement would be allocated to the other rural valley customers (standard water use customers), ensuring a fair and equitable allocation of infrastructure costs to each customer class.[2]

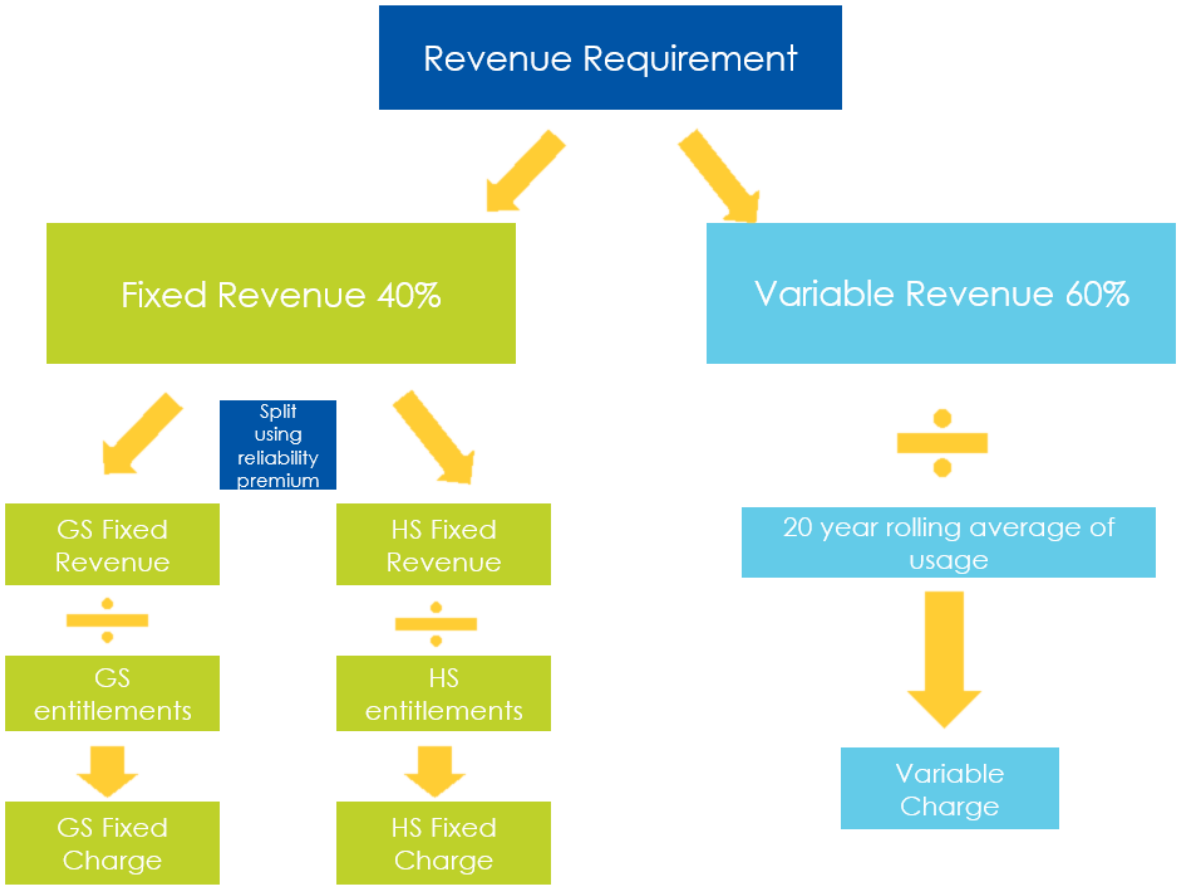
1.1.3 Tariff Structure Under Alternative Scenarios 1 & 2

Under Alternative Scenarios 1 & 2, WaterNSW proposes to set fixed and variable tariffs under the existing fixed to variable pricing split by valley for all customers, including licensed environmental water (this is 40:60 fixed to variable in most rural valleys, 60:40 fixed to variable for the Hunter Valley, 80:20 for the Peel Valley, 80:20 for the Lachlan Valley per customer preference, and 100% fixed for the Lowbidgee).

WaterNSW then proposes to cap price increases for 'standard water use customers' (excluding the licensed environmental water) over the upcoming determination period by 15% per annum in real terms. Licensed environmental water will be subject to a cost reflective tariff under the existing fixed to variable pricing structure split.
The process for calculating the cost reflective tariffs under Scenarios 1 & 2 under a notional 40:60 fixed to variable tariff structure is shown below:

[2] Costs are allocated to the licensed environmental usage by weighted average % of entitlement held. Environmental supplementary water is subject to existing variable charges (except in the Lowbidgee, where supplementary water is subject to a fully fixed charge per the current determinaiton)

Figure 3 – Calculation of cost reflective tariffs under alternative scenarios 1 & 2



Per the flow chart above, a cost reflective Alternative Scenario 1 & 2 is calculated by computing the cost reflective revenue requirement for each valley, allocating the revenue requirement into the fixed and variable components, and dividing the fixed and variable components into the fixed (entitlement) and variable (usage) volumes respectively.

For standard water use customers, the fixed and variable charges are capped by 15% per annum in real terms from the 2024-25 prices in instances where the cost reflective price is above the capped price.

For licensed environmental water, the cost reflective fixed and variable prices will apply.

1.1.4 Cost Share under Alternative Scenario 1 & 2

Under Alternative Scenario 1 & 2, WaterNSW propose to allocate 50% of the cost of dam safety and environmental works to the Government. This is discussed in Attachment 25.

As the Hunter and Macquarie valleys contain dams (Glenbawn and Burrendong) which were constructed to provide a specific flood mitigation function, WaterNSW also proposes to allocate an additional:

- 11% of the Total Cost of the Hunter to the Government

- 24% of the Total Cost of the Macquarie to the Government.

The derivation of the additional Government allocation respectively is shown below and is derived by the pro rata of additional airspace capacity at Glenbawn (Hunter) and Burrnedong Dam (Macquarie):

Table 2 – Flood mitigation capacity analysis Alternative Scenario 1 & 2

Valley	Dam	Total Capacity (ML)	Total flood mitigation capacity (ML)	Extra Govt share (%)
Border	Pindari Dam	312,000		
Gwydir	Copeton Dam	1,346,000		
Namoi	Keepit Dam	419,000		
Namoi	Split Rock Dam	394,000		
Peel	Chaffey Dam	101,000		
Macquarie	Burrendong	1,678,000	489,000	24%
Macquarie	Windamere	368,120		
Hunter	Glenbawn	749,000	120,000	11%
Hunter	Lostock	20,000		
Hunter	Glennies Creek	282,000		
North Coast	Toonumbar Dam	11,000		
Northern Region		**5,680,120**	**609,000**	**11%**
Lachlan	Carcoar Dam	36,000		
Lachlan	Wyangala Dam	1,217,000		
Murray	Menindee Lakes	1,731,000		
Murrumbidgee	Blowering Dam	1,604,000		
Murrumbidgee	Burrinjuck Dam	1,025,000		
Lowbidgee				
South Coast	Brogo Dam	9,000		
Southern Region		**5,622,000**	**0**	**0%**

*as a % of total capacity in the Hunter Valley. **as a % of total capacity in the Macquarie Valley.

1.1.5 Revenue Gap calculation for Scenarios 1 &2

After setting our proposed prices for licensed environmental water (cost reflective) and standard water use customers (15% price cap). WaterNSW then applies the cost share ratios amendments for flood mitigation capacity and dam safety and environmental expenditure as discussed above. WaterNSW then derives the calculation of the revenue gap under Scenarios 1 & 2, as shown in the waterfall charts below:

Figure 4 – Alternative Scenario 1 – User Share

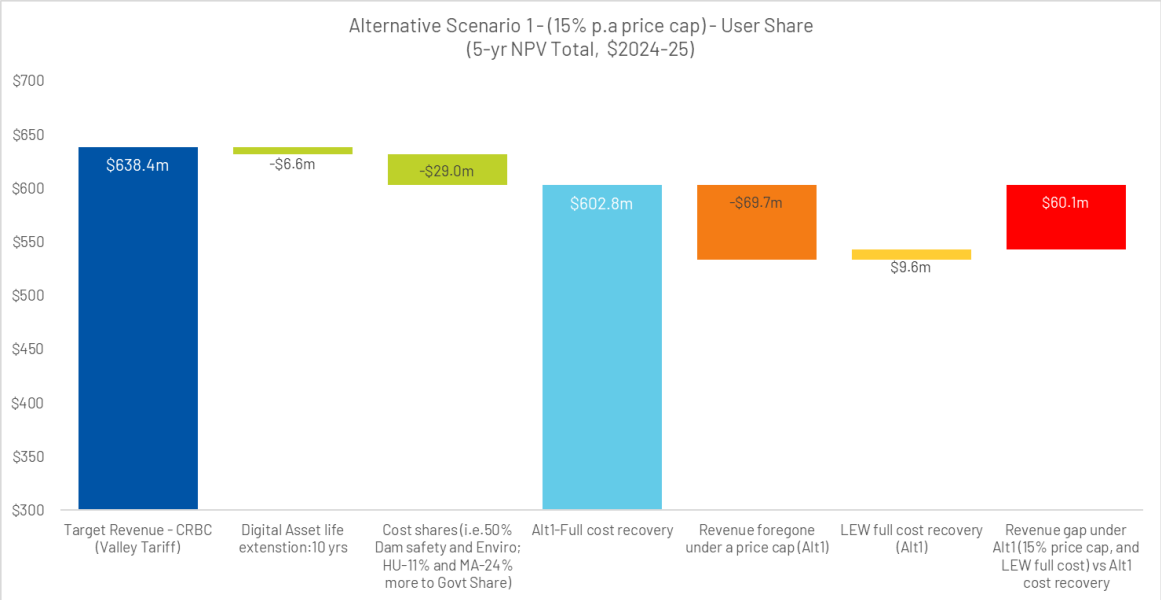
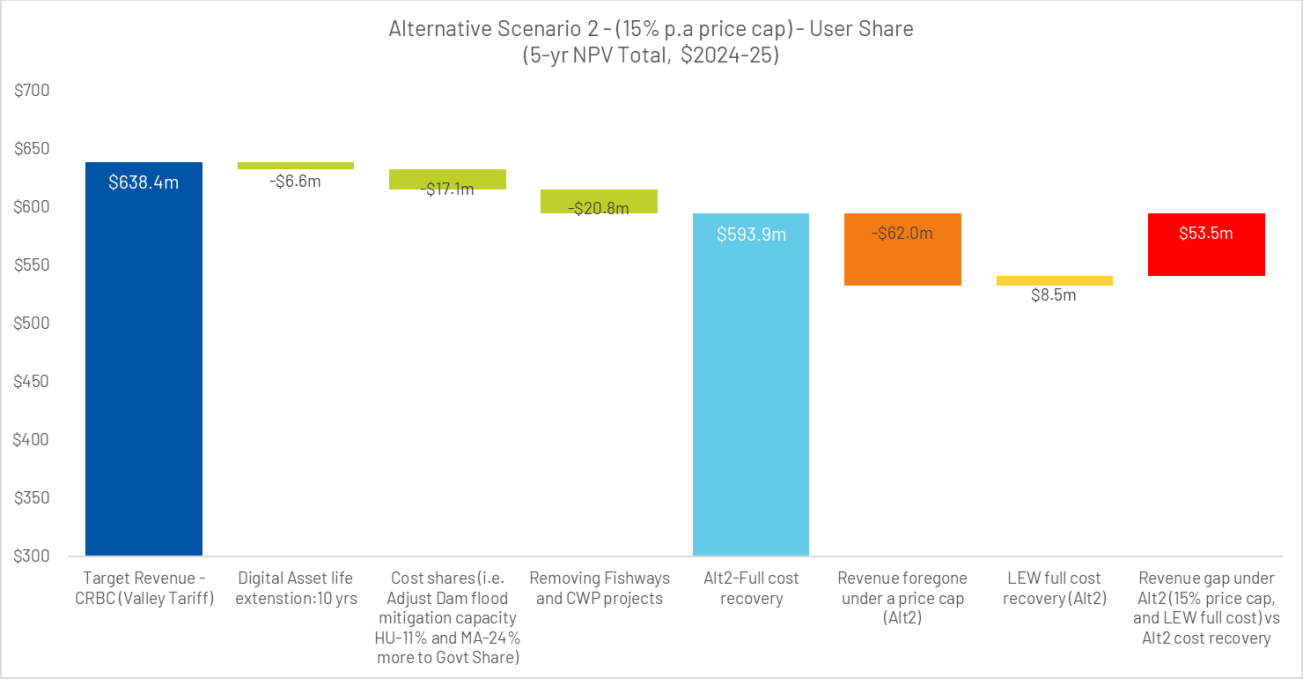


Figure 5 – Alternative Scenario 2 – User Share



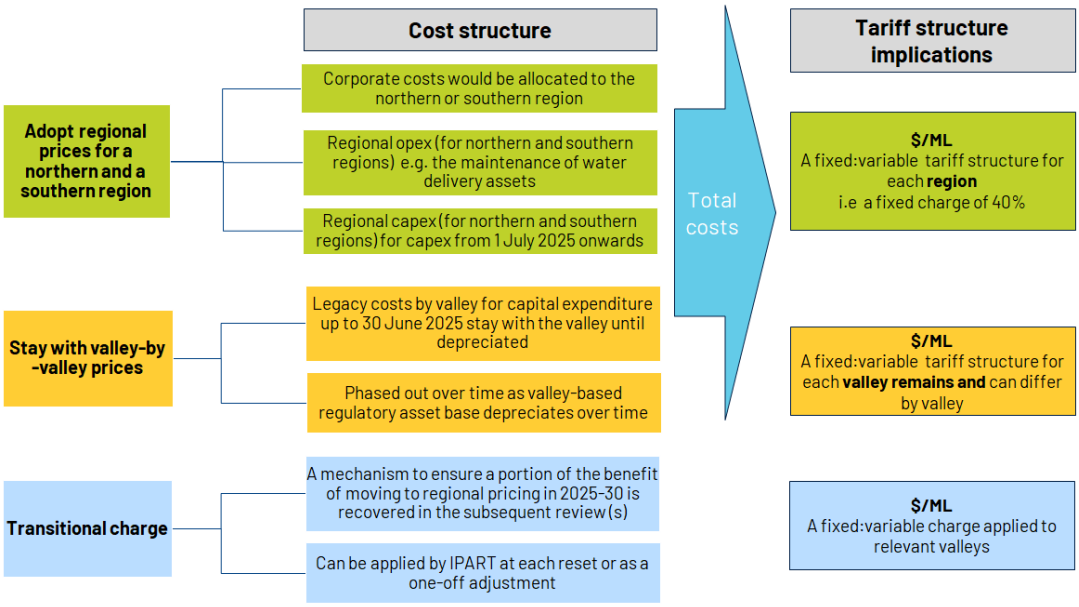
1.1.6 Tariff Structure Under Alternative Scenario 3 (Regional Pricing)

This alternative scenario builds on Alternative Scenario 1 (including a 15% per year price cap plus inflation) and applies a reform initiative that would see the pricing of rural bulk water services transition from valley-based to regional-based charging.

Each valley would pay a legacy charge for the capital expenditure it has incurred up to 30 June 2025.

This legacy charge would continue until the existing assets are fully depreciated. From 1 July 2025, charging for capital expenditure and operating expenditure would shift to a regional basis – that is, valleys would receive regionally-based charges rather than valley-based charges. This is shown in the figure below:

Figure 6 – Regional Tariff Structure



In addition, WaterNSW proposes a 15% per annum cap on price increases acting as a constraint to limit what would otherwise be large customer bill increases for valleys that currently pay less than other valleys in the same region. This means each valley's timeframe is different to reach full cost recovery, with a legacy charge and the new regional charge. Any revenue gap will be absorbed until the valleys in each region reach cost reflectivity.

Two regions are suggested: a Northern region comprising seven valleys (Border, Gwydir, Namoi, Peel, Hunter, Macquarie and North Coast) and a Southern region comprising five valleys (Lachlan, Murray-Lower Darling, Murrumbidgee and South Coast), as shown below:

Table 3 – Valley to region mapping

Regulated Valleys	Regions
Border	Northern Region
Gwydir	
Namoi	
Peel	
Macquarie	
North Coast	
Hunter	

Regulated Valleys	Regions
Lachlan	Southern Region
Murray	
Murrumbidgee	
Lowbidgee	
South Coast	

Regional pricing is consistent with the IPART stated aim to allow the regulated utility to reprioritise expenditure within the allowance. It provides several benefits compared to valley-based pricing, including:

- minimising price shocks within and between valleys in the future as expenditures are allocated across a wider customer base
- providing WaterNSW with flexibility to operate across the region to deliver its required investment programs while still focussing on the priorities of each valley
- providing opportunities for improved efficiency as the regionally-based framework aligns to WaterNSW's regional structure for its maintenance and operational activities
- achieving other administrative improvements, including more straightforward cost allocation across valleys.

On balance, regional pricing is considered to be similar to valley-based pricing in terms of cost reflectivity, while providing significant benefits particularly with respect to minimising future pricing volatility within and between valleys.

A regional charging structure will result in some valleys paying more and other valleys paying less than under a valley-based regime. WaterNSW's suggests that regional pricing should only be considered for this review if combined with a 15% per year (plus inflation) price cap, ensuring no valley would be no worse off over 2025-30 than had valley-based pricing continued.

However, for those valleys experiencing price reductions over the next five years, the revenue shortfall could not be recovered by other valleys as the price cap would limit increases in valleys where prices would need to increase. This creates the situation where a residual revenue shortfall is created that would either need to be funded outside of customer prices (e.g. via WaterNSW or the NSW Government) or deferred to a subsequent regulatory period(s). In order to minimise any residual revenue shortfall over the next five years, WaterNSW proposes a "transitional" charge ($/ML) is introduced that is calculated as the forecast difference between the revenue requirement in each valley under valley-based pricing and regionally-based pricing.

1.1.7 Problems with valley-based pricing

The current valley based pricing structure has a number of unintended consequences:

- Valley Based pricing leads to multiple pricing discrepancies by valley. Moving to a regional framework could help minimise price shocks within and between valleys. Currently small

changes in costs can lead to large increases in smaller valleys under this valley-based approach.

- Valley based pricing puts constraints on how we deliver capital projects. WaterNSW is currently unable to shift asset management money between valleys as intended by prudent and efficient business that operates on a regional basis. For example, Rural valley customers have asked that we focus on repair works when a river is low rather than impacting customers when water availability is good. Customers raised as an example that it would be far more efficient to work in river systems during very low flow events. WaterNSW should prioritise infrastructure works in low flow areas rather than impacting customers with outages in normal water flows. Regional based pricing would enable this. WaterNSW considers that the valley based system does not reflect what happens on the ground.

- There are already several areas where the current approach to valley-based pricing already has a false precision. The rivers extend hundreds of kilometres and valley-based prices means some customers are already cross-subsidising others.

Under a regional based pricing framework, WaterNSW would consider the wider area for the costs to deliver water services and spreads this across a larger customer base. Pricing by region could:

- **Create administrative savings** as staff would only need to code their activities to one of two regions rather than individual valleys. This means reduced regulatory complexity to administer, resulting in improved work accuracy and productivity.
- **Enable WaterNSW to have flexibility** to respond to the various challenges that NSW regional communities face.
- **Reduce the volatility and variability in customer bills** as operating expenditure and capital expenditure are allocated across two wider customer bases (a northern and a southern region) rather than individual valleys.

  If customers are capped at 15% each year for the next five years, we have modelled how many years it will take at this rate for each valley to get back to the real water service and delivery costs (called cost reflectivity). This paper shows the results. Some customers may pay less than 15% per annum over the next five years but customers won't pay more than 15% and one pathway to pick up the difference is a contribution from Government. **As a result some valleys will have their bills capped for a bit longer.**
- Once **all customers in valleys get to full cost recovery for their region, then ALL customers will benefit** as costs are shared over a larger customer base.

Annexure A sets out our assessment of regional based pricing framework against the regulatory criteria.

1.1.8 Cost Share under Alternative Scenario 3

Similar to Alternative Scenarios 1 & 2, WaterNSW propose to allocation 50% of the cost of dam safety and environmental works to the Government.

As the Hunter and Macquarie valleys in the Northern Region contain dams (Glenbawn and Burrendong) that were constructed to provide a specific flood mitigation function, WaterNSW also proposes to allocate an additional: 11% of the Total Cost of the North Region (encompassing the Hunter and Macquarie Valleys) to the Government under Alternative Scenario 3.

The derivation of the additional 11% Government allocation is shown below:

Table 4 – Flood mitigation capacity analysis Alternative Scenario 3

Valley	Dam	Total Capacity (ML)	Total flood mitigation capacity (ML)	Extra Govt share (%)
Border	Pindari Dam	312,000		
Gwydir	Copeton Dam	1,346,000		
Namoi	Keepit Dam	419,000		
Namoi	Split Rock Dam	394,000		
Peel	Chaffey Dam	101,000		
Macquarie	Burrendong	1,678,000	489,000	24%
Macquarie	Windamere	368,120		
Hunter	Glenbawn	749,000	120,000	11%
Hunter	Lostock	20,000		
Hunter	Glennies Creek	282,000		
North Coast	Toonumbar Dam	11,000		
North Region		**5,680,120**	**609,000**	**11%**
Lachlan	Carcoar Dam	36,000		
Lachlan	Wyangala Dam	1,217,000		
Murray	Menindee Lakes	1,731,000		
Murrumbidgee	Blowering Dam	1,604,000		
Murrumbidgee	Burrinjuck Dam	1,025,000		
Lowbidgee				
South Coast	Brogo Dam	9,000		
South Region		**5,622,000**	**0**	**0%**

*as a % of total capacity in the Hunter Valley. **as a % of total capacity in the Macquarie Valley.

1.1.9 Transitional charge – Alternative Scenario 3b

WaterNSW has applied a transitional charge in specific circumstances for Scenario 3b. 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. This is the case for Gwydir and Macquarie valleys 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.

The proposed fixed to variable split for the legacy, regional, and transitional charges under regional pricing is shown below:

Table 5 – Fixed to variable tariffs Alternative Scenario 3

	Charges	Fixed component of price structure
Border	Legacy Charge	40%
Gwydir		40%
Namoi		40%
Peel		80%
Lachlan		80%
Macquarie		40%
Murray		40%
Murrumbidgee		40%
Lowbidgee		100%

	Charges	Fixed component of price structure
North Coast		90%
Hunter		60%
South Coast		80%
Fish River		80%
Northern Region	Regional Charge	40%
Southern Region		40%

Table 6 – Fixed to variable tariffs Alternative Scenario 3b transitional charges

	Charges	Fixed component of price structure
Namoi	Transitional Charge	100%
Peel		100%
Lachlan		100%
Hunter		100%

1.1.10 Regional Price User share summary

After setting our proposed prices for the transitional charge, licensed environmental water (cost reflective) and standard water use customers (15% price cap) on a regional basis; WaterNSW then applies the cost share ratios amendments for flood mitigation capacity and dam safety and environmental expenditure in alternative scenario 1 (as discussed above). WaterNSW then derives the calculation of the revenue gap under Regional Pricing alternative scenario 3, as shown in the waterfall charts below (with and without a transitional charge):

Figure 7 – Alternative Scenario 3a (without transition charge) – User Share

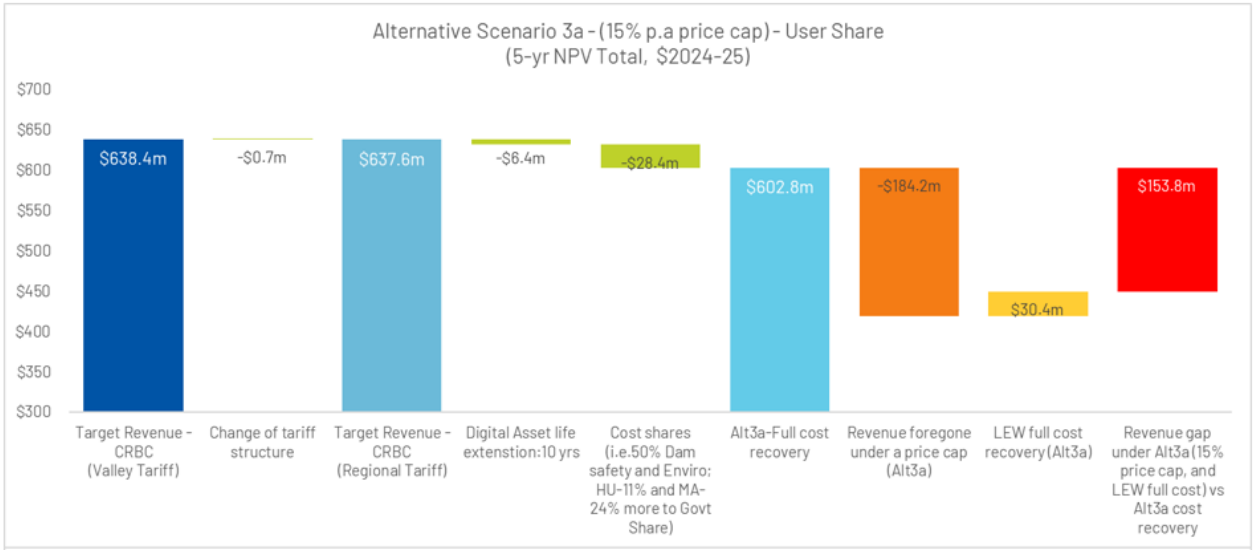
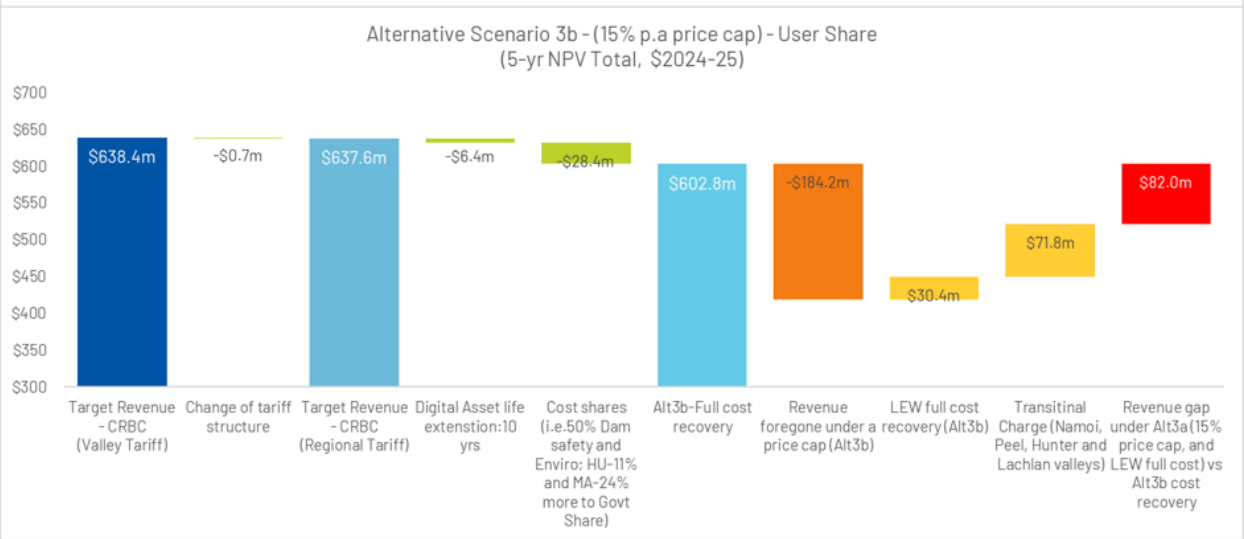


Figure 8 – Alternative Scenario 3b (with transition charge) – User Share



1.2 Greater Sydney pricing structures and prices

In setting prices at the 2021 Determination, IPART adopted price structures that it considered cost reflective. This meant IPART set access charges to recover efficient fixed costs[3] and usage charges to recover efficient variable costs.[4]

WaterNSW proposes to largely maintain the pricing structures for Greater Sydney customers.

Our approach to pricing structures for Greater Sydney are outlined below:

- WaterNSW proposes **a revenue cap** as the form of control with a side constraint of 2% for Greater Sydney Large Customers (i.e. Sydney Water Corporation)
- If a revenue cap is accepted by IPART, we propose to retain the current proportion of fixed to variable tariff components of **80:20**
- If a revenue cap is not accepted by IPART, we propose to move the fixed proportion of our Greater Sydney tariffs to **90%** to align to our fixed cost structure more closely.

[3] Fixed costs are those that do not vary over the short-term and do not change with the amount of output produced. Access charges are paid by customers regardless of the amount they consume.
[4] Variable costs are assumed to be those that change with the amount of water usage. Usage charges are paid by customers and applied to the amount of water they consume.

Annexure A: Regional Pricing against the regulatory criteria

Annexures A – Table of assessment

IPART Criteria	Our Thinking
Does this reflect our costs	• With current valley-based pricing – we don't really reflect costs on customer bills – they are consolidated into a valley cost – with producers hundreds of kilometers apart. • With region pricing we have better economies of scale. • This form of administration is more aligned with WaterNSW's core business structure. • We can prevent potential large cross-subsidies between the valleys. Past investments will continue to be recovered from the valleys and only future investments will be met by the new regions
Is it transparent	• WaterNSW would focus on services - where the same service is provided, a similar fee would apply, across all valleys to everyone. • That is, the same service the same fee – WaterNSW has a range of central functions and expenditure that would be allocated to all customers on a pro rata entitlement basis across the State. • The southern region and northern region maintenance costs can be kept separate - only recovered in each region. They can be allocated to customers within each region, proportionate to the number of water entitlements they have. • The approach to this allocation of costs would be transparent and easy to understand. Of note, cost allocation under the regional approach would align to the entitlement allocation as shown below, which would be considered fair and equitable in the circumstances under a regional focused service provider:

Table 7 – Regional cost vs entitlement %

Northern Region							
%	Regional Based	Valley Based	Change	Total Entitlements in Valley	Total Number of Storages in Valley	% by Entitlements	% by Storages
Border	14%	7%	8%	266,359	312,000	13%	5%
Gwydir	26%	18%	8%	536,885	1,346,000	27%	24%
Namoi	14%	19%	-5%	265,663	813,000	13%	14%
Peel	2%	9%	-6%	46,416	101,000	2%	2%
Macquarie	28%	23%	5%	676,313	2,046,120	34%	36%
Hunter	16%	20%	-5%	208,799	1,051,000	10%	19%

	North Coast	0.2%	4%	-4%	9,668	11,000	0.5%	0.2%
	Total	**100%**	**100%**	**0%**	**2,010,103**	**5,680,120**	**100%**	**100%**
	Southern Region							
	Lachlan	7%	30%	-23%	672,515	1,253,000	10%	22%
	Murray	41%	18%	23%	2,352,508	1,731,000	36%	31%
	Murrumbidgee	48%	44%	4%	2,692,351	2,629,000	42%	47%
	Lowbidgee	4%	2%	2%	747,000	0	12%	0%
	South Coast	0.2%	5%	-5%	15,137	9,000	0.2%	0.2%
	Total	**100%**	**100%**	**0%**	**6,479,511**	**5,622,000**	**100%**	**100%**

Is this idea fair and equitable	• WaterNSW can create some organisational efficiencies. For example, this reduces multiple separate reporting needs, complex timesheets etc. • A regional allowance for new investment (rather than a valley-by-valley allowance) means we can share the regulatory risk arising from needing to modify planned expenditure. For example in a flood, drought or bushfire, customers currently have the cost of that planned investment included in their bills, even if the work can't be delivered. • We would have a greater flexibility to ensure customers are not paying a return (interest) on this underspent capital expenditure. We could reprioritize capital and operating expenditure within the region. • WaterNSW agrees that we should engage customers to develop a transparent framework to ensure valley-based priorities are not lost under a regional approach. • Currently MDBA (Murray and Murrumbidgee) and Border River Commission costs (Border Valley) are separate arrangements in addition to bulk water. We could revisit how MDBA and BRC costs are allocated across valleys.
Is there a precedent for this proposal	• Ultimately, the decision on this is up to IPART. IPART has agreed to regional pricing before: • A uniform Greater Sydney Regional Charge for WaterNSW • Sydney Water Determination • The Victorian Essential Services Commission implemented uniform pricing for Goulburn Murray Water in 2016-2020
Have we considered social impacts	• This alternative scenario is being proposed by WaterNSW only because IPART is likely to consider an annual cap in prices (such as 15% per annum). This would ensure customers are no worse off compared to meeting the Cost Reflective Base Case, or other alternative scenarios for valley-based pricing • With a cap in place, the financial adjustments to the regional price could be smoothed out over time. This would avoid any additional bill impacts on regional customers arising from this scenario. • Beyond 2025-30, a price cap or a transitional charge could assist customers to reach cost reflectivity over several regulatory periods, to help mitigate impacts. • The key benefit is that large pricing variations between valleys, and between regulatory periods, are mitigated by allocating costs over a larger customer base.