

# Gwydir Valley

## Issues Paper - WaterNSW's rural bulk water pricing proposal



In this Fact Sheet we highlight some key information from WaterNSW's pricing proposal for customers in the **Gwydir valley**. This information is not exhaustive and should be read in conjunction with our General Overview Fact Sheet and Issues Paper.




### Overview

- ▼ Forecast annual entitlement for 2016-17: General Security 511,609 ML; High Security 26,840 ML.
- ▼ Forecast annual usage for 2016-17: 264,774 ML (20 year rolling average).
- ▼ Proposed user share notional revenue requirement (NRR): \$21.6 million over 2017-18 to 2020-21 or \$5.4 million per year. The user share of NRR is the portion of total costs that are paid for by customers. This is used as the basis for WaterNSW setting its proposed prices.
- ▼ The proposed user share of NRR for the Gwydir valley represents around 7.4% of WaterNSW's proposed total user share of NRR across the state.
- ▼ Proposed average annual user share of NRR over the 4-year determination period is increasing when compared to that allowed under the 2014 ACCC Decision.
- ▼ Proposed volatility cost (ie, the costs of purchasing a risk transfer product) represents 8.9% of user share of NRR over the determination period.

Under WaterNSW's proposal, bulk water charges in the valley are decreasing in real terms for high security entitlement holders and increasing for general security entitlement holders. The variable usage charge will decrease for all customers.

Consistent with WaterNSW's proposal, the **price** and **revenue** figures below are in **\$2016-17** (ie, they **exclude** the effects of inflation beyond 2016-17).

### WaterNSW's proposed price changes (per ML, \$2016-17)

<b>High Security</b>		7.4%	\$14.13/ML (2016-17) \$13.08/ML (2020-21)
<b>General Security</b>		18.2%	\$3.47/ML (2016-17) \$4.11/ML (2020-21)
<b>Variable usage</b>		7.9%	\$12.13/ML (2016-17) \$11.17/ML (2020-21)

### WaterNSW's proposed NRR for Gwydir valley (\$000s, \$2016-17)

	2017-18	2018-19	2019-20	2020-21	Total <sup>a</sup>	Average Proposed <sup>a</sup>	Average ACCC	Change <sup>b</sup>
Base building block	5,180	5,199	5,336	5,356	21,071	5,268	5,215	1.0%
UOM <sup>c</sup> allowance	143	143	143	143	572	143	68	110.6%
BRC & MDBA costs	-	-	-	-	-	-	-	N/A
<b>Total user share</b>	<b>5,323</b>	<b>5,342</b>	<b>5,479</b>	<b>5,499</b>	<b>21,643</b>	<b>5,411</b>	<b>5,283</b>	<b>2.4%</b>
Total NRR-Gwydir	10,449	10,419	10,505	10,461	41,835	10,459	11,924	-12.3%
<b>Total user share (%)</b>	<b>51%</b>	<b>51%</b>	<b>52%</b>	<b>53%</b>	<b>52%</b>	<b>52%</b>	<b>44%</b>	

<sup>a</sup> Total and annual average over 2017-18 to 2020-21.

<sup>b</sup> Annual average (2017-18 to 2020-21) compared with average annual (2014-15 to 2016-17).

<sup>c</sup> Unders and Overs Mechanism (UOM).



WaterNSW's pricing proposal includes indicative customer bills, for a range of entitlement and usage volume scenarios, under its proposed fixed and usage charges.

Below we present two of these scenarios: a general security bill based on a customer holding a 1,000 ML entitlement and using 60% of the entitlement; and a high security bill based on a customer holding a 500 ML entitlement and using 100% of the entitlement held in a year.

The **bill impacts** presented below are in **nominal dollars** (ie, they **include** the effects of forecast inflation, assumed to be 2.5% per year, beyond 2016-17).

Under WaterNSW's proposed prices, typical bills would increase for high security and general security entitlement holders.

#### Indicative customer bill impacts of proposed prices (\$nominal)

		High Security (including inflation)		General Security (including inflation)
	1.9%	\$13,130 (2016-17) \$13,384 (2020-21)		11.0%
				\$10,753 (2016-17) \$11,934 (2020-21)

**The Issues Paper contains a number of questions for stakeholder comment.** The following questions may be particularly relevant to stakeholders in the Gwydir valley:

- ▼ The proposed average annual total and user share of capital expenditure in the Gwydir is increasing when compared to the previous determination period (2013-14 to 2015-16). Is WaterNSW's forecast capital expenditure for the 2017 determination period prudent and efficient?
- ▼ WaterNSW has proposed to purchase a risk transfer product to manage its sales volume volatility and to pass on the costs of this purchase to customers. The proposed volatility cost is 8.9% of the user share of NRR of the Gwydir valley, which directly affects general security entitlement prices. Should users pay for the purchase of a risk transfer product?