

Peel Valley

Issues Paper - WaterNSW's rural bulk water pricing proposal



In this Fact Sheet we highlight selected key information from WaterNSW's pricing proposal for customers in the **Peel 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 30,428 ML; High Security 17,367 ML.
- ▼ Forecast annual usage for 2016-17: 11,291 ML (20 year rolling average).
- ▼ Proposed user share notional revenue requirement (NRR): \$4.7 million over 2017-18 to 2020-21 or \$1.2 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 Peel valley represents around 1.6% 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 decreasing when compared to that allowed under the 2014 ACCC Decision.
- ▼ Proposed volatility cost (ie, the costs of purchasing a risk transfer product) represents 7.2% of the user share NRR of the Peel valley 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 slightly 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)

High Security		39.3%	\$35.27/ML (2016-17) \$21.42/ML (2020-21)
General Security		23.2%	\$3.88/ML (2016-17) \$4.78/ML (2020-21)
Variable usage		1.2%	\$58.26/ML (2016-17) \$57.57/ML (2020-21)

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

	2017-18	2018-19	2019-20	2020-21	Total ^a	Average Proposed ^a	Average ACCC	Change ^b
Base building block	1,135	1,147	1,186	1,201	4,670	1,167	1,392	-16.1%
UOM ^c allowance	-	-	-	-	0	0	16	-100.0%
BRC & MDBA costs	-	-	-	-	-	-	-	N/A
Total user share	1,135	1,147	1,186	1,201	4,670	1,167	1,392	-16.1%
Total NRR- Peel	3,392	3,392	3,414	3,407	13,605	3,401	4,315	-21.2%
Total user share (%)	33%	34%	35%	35%	34%	34%	32%	

^a Total and annual average over 2017-18 to 2020-21.

^b Annual average (2017-18 to 2020-21) compared with average annual (2014-15 to 2016-17).

^c 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 decrease for high security entitlement holders and increase for general security entitlement holders.

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

		High Security (including inflation)		General Security (including inflation)
	6.8%	\$46,761 (2016-17) \$43,597 (2020-21)		11.8%
				\$38,832 (2016-17) \$43,400 (2020-21)

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

- ▼ The proposed average annual total capital expenditure in the Peel is decreasing when compared to the previous determination period (2013-14 to 2015-16). Over the same period the user share of capital expenditure increasing slightly. Is WaterNSW's forecast capital expenditure for the 2017 determination period prudent and efficient?
- ▼ WaterNSW proposes, in line with the feedback it received from customers, to continue the current fixed variable splits with the Unders and Overs Mechanism (UOM) for most valleys and no UOM for the Hunter Valley. WaterNSW proposed further consultation with customers in the Peel valley on whether the UOM should be introduced into that valley. Do customers in the Peel Valley support the introduction of an UOM?
- ▼ The proposed average annual user share of NRR is decreasing by 16.1% when compared to the current determination period. However, general security entitlement prices would increase by 23.2%. 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 7.2% of the user share of NRR for the Peel valley, which directly affects general security entitlement prices. Should users pay for the purchase of a risk transfer product?