

Murrumbidgee 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 **Murrumbidgee** 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 2,267,963 ML; High Security 438,331 ML.
- ▼ Forecast annual usage for 2016-17: 1,743,637 ML (20 year rolling average).
- ▼ Proposed user share notional revenue requirement (NRR): \$52.2 million over 2017-18 to 2020-21 or \$13 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 Murrumbidgee valley represents around 17.9% of WaterNSW's proposed total user share of NRR across the state.
- ▼ Proposed average annual user share of NRR over the four year determination period is decreasing when compared to the three years of the current determination.
- ▼ On average, Murray Darling Basin Authority (MDBA) costs represent 22.1% of the total proposed annual user share NRR for Murrumbidgee valley.
- ▼ Proposed volatility cost (ie, the costs of purchasing a risk transfer product) represents 4.0% of user share NRR of the Murrumbidgee valley over the determination period.

Under WaterNSW's proposal, final entitlement charges (ie, bulk water plus MDBA charges) would increase for high security entitlement holders and general security holders in real terms. The usage charge would decrease for all customers. WaterNSW has proposed a change in price structure for MDBA charges from the current 40:60 fixed to usage split to 100% fixed charge on entitlement.

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 prices, change over 2016-17 to 2020-21 (per ML, \$2016-17)

	Bulk water charges (excluding inflation)		MDBA charges (excluding inflation)		Final charges (excluding inflation)	
High Security	↓	5.6% (\$3.08 to \$2.90)	↑	67.1% (\$0.72 to \$1.20)	↑	8.1% (\$3.79 to \$4.10)
General Security	↑	8.4% (\$1.26 to \$1.37)	↑	193.3% (\$0.29 to \$0.86)	↑	43.4% (\$1.56 to \$2.23)
Usage	↓	6.1% (\$3.53 to \$3.32)	↓	100% (\$0.82 to \$0.00)	↓	23.9% (\$4.36 to \$3.32)

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

	2017-18	2018-19	2019-20	2020-21	Total ^a	Average Proposed ^a	Average ACCC	Change ^b
Base building block	9,895	9,998	10,144	10,430	40,466	10,116	13,481	-25.0%
UOM ^c allowance	40	40	40	40	159	40	6	521.1%
MDBA costs	3,438	2,712	2,674	2,740	11,564	2,891	2,387	21.1%
Total user share	13,372	12,750	12,857	13,210	52,189	13,047	15,874	-17.8%
Total NRR-Murrumbidgee	18,456	17,841	17,927	18,249	72,473	18,118	20,942	-13.5%
Total user share (%)	72%	71%	72%	72%	72%	72%	76%	

^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 final prices, typical bills (including MDBA costs) would increase for high security and general security entitlement holders.

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

	High Security (including inflation)		General Security (including inflation)	
	0.4%	\$4,075 (2016-17) \$4,090 (2020-21)		11.9%
				\$4,160 (2016-17) \$4,656 (2020-21)

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

- ▼ Water NSW has forecast a total MDBA user share of costs of about \$58.8 million over the four years to 2020-21. This represents an annual average increase of 13.3% compared with the previous three years. Is the proposed MDBA user share of costs efficient?
- ▼ WaterNSW has proposed to change the MDBA charge from a 40:60 fixed to usage split to a 100% fixed charge per ML of entitlement. How should MDBA charges be structured?
- ▼ WaterNSW has proposed reducing the high security premium, which would shift costs towards general security users. Is this adjustment reasonable?
- ▼ WaterNSW has proposed an increase in the user share of average annual capital expenditure of around \$8.6 million in Murrumbidgee valley from 2016-17 to 2020-21. Is WaterNSW's forecast capital expenditure prudent and efficient?
- ▼ Irrigation Corporations and Districts (ICDs) conduct activities that warrant rebates from charges in recognition of avoided costs. The rebates proposed by WaterNSW for the upcoming determination are around 50% less than the rebates determined by the ACCC for 2016-17. Are the levels of ICD rebates proposed by WaterNSW reasonable?
- ▼ WaterNSW has proposed to continue charging a Yanco Creek levy of \$0.90 per ML of entitlement (ie, hold the levy constant in nominal terms). Do water users in the Yanco Creek system support the continuation of the levy? Should the levy be charged per ML of water entitlement or per ML of water usage?