Draft Report
WaterNSW rural bulk water services

14 March 2017

WHAT

IPART is reviewing the maximum prices that WaterNSW can charge for its rural bulk water services. These services relate to storing and delivering water to entitlement holders in 12 valleys across NSW, and the Fish River Water Supply.

We have released a Draft Report and Draft Determination and invite stakeholder feedback. Individual Fact Sheets, highlighting key decisions for each valley, are available via our website.

WHY

We aim to set prices to allow WaterNSW to recover only the customers' share of the efficient costs of its monopoly services.

Our Draft Report sets out our draft decisions on the three broad categories of prices that we will set in this review:

- **Bulk water charges** (annual entitlement and usage prices)
- **Murray Darling Basin Authority (MDBA) and Barwon-Dumaresq Border Rivers Commission (BRC) charges** (annual entitlement and usage prices)
- **Miscellaneous charges**, ie, for meter services and other miscellaneous activities.

WHO

WaterNSW delivers bulk water to irrigators and other licence holders on regulated rivers across NSW. It operates 42 large dams and weirs, and delivery infrastructure, to deliver water to around 6,300 customers.

HOW

Our Draft Report sets out the process we have used and our key decisions in determining our draft prices. Key steps in this process include:

- Establishing the efficient costs (or 'Notional Revenue Requirement' – NRR) of WaterNSW's monopoly services and allocating it between customers and the NSW Government.
- Determining the structure of WaterNSW's maximum prices and setting them to recover the customer share of NRR by valley.
- Evaluating the impact of prices on customers and other stakeholders.

The impact of our key draft decisions is summarised on the next page.

WHAT NEXT

We are seeking your views on our draft decisions. Submissions are due by 17 April 2017.[1] We prefer submissions via our online form. You can also send comments by fax to (02) 9290 2061, or by mail to:

Price review for WaterNSW (rural)
Independent Pricing & Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240

We will also be holding a public hearing in Sydney on 4 April 2017. To register, complete an online registration form.

Following the release of our Final Report in June 2017, new prices will take effect from 1 July 2017, for a period of 4 years.

[1] Unless they are identified as confidential, we plan to put all submissions on our website soon after the closing date for submissions.

IMPACT OF OUR DRAFT DECISIONS

Bills in some valleys are falling

Due to the general decrease in our draft prices, most customer bills are expected to either fall, or increase at or below the rate of inflation. Our analysis of bill impacts, indicate that from 2016-17 to 2020-21:

- most high security (HS) customers would expect a bill decrease, or a small increase at or below the rate of inflation, except those in the Murray valley which would experience larger increases due to MDBA charges.
- general security (GS) customers would expect a bill decrease, or a small increase at or below the rate of inflation, except for those in the Gwydir, Namoi and South Coast valleys.

Entitlement charges falling for most valleys

Entitlement charges are levied per megalitre of licensed entitlement held.

We have set two classes of entitlement charges:

- **Bulk water entitlement charges** – customers in all valleys pay these charges, and our draft prices would see most of these charges fall.
- **MDBA and BRC entitlement charges** – customers in Border (BRC), Murray and Murrumbidgee (MDBA) pay these charges in addition to their bulk water entitlement charges. MDBA and BRC entitlement charges would rise under our draft prices. This is due to increased MDBA and BRC costs, and our decision to set MDBA and BRC tariffs on an 80:20 basis.

Whilst most charges are falling in real terms, ie, without inflation (excluding MDBA and BRC charges), our draft entitlement charges for HS entitlement holders have typically decreased more than those for GS licence holders. This relative change is driven by:

- our updates to the HS premium, and
- increased GS entitlement charges in some valleys to return the unders and overs mechanism (UOM) balance to zero (discussed below).

Usage charges falling for most valleys

Usage charges are charges customers pay per megalitre of water extracted.

We have set two classes of usage charges:

- **Bulk water usage charges** – customers in all valleys pay these charges, and our draft prices would see most of these charges fall.
- **MDBA and BRC usage charges** – customers in Border (BRC), Murray and Murrumbidgee (MDBA) pay these charges in addition to the bulk water usage charges for those valleys. MDBA and BRC usage charges would fall under our draft prices. This is due to our draft decision to set MDBA and BRC tariffs on an 80:20 fixed (entitlement) to variable (usage) basis (rather than the current 40:60 ratio).

Usage charges are falling in all valleys[2] except:

- Lowbidgee, where we have changed the tariff structure from 100% fixed (entitlement) charges to 80:20 fixed:usage, and
- South Coast, where we have allowed for a small increase following our decision to set prices within an efficient price band that recognises customer capacity to pay, rather than striving for full cost recovery.

The largest reductions occur in the Macquarie (due to significantly lower costs, particularly operating expenditure), Border and Hunter valleys.

WaterNSW's efficient costs are falling

The biggest drivers of cost reductions are:

2 Excluding MDBA and BRC charges.

- WaterNSW's savings in operating expenditure, and
- a lower return on capital.

We have set WaterNSW's allowance for capital expenditure at $152 million over the four years of the 2017 determination period. In doing so, we reduced WaterNSW's proposed capital expenditure by around $44 million (23%).

MDBA and BRC costs are rising

MDBA and BRC pass-through costs would increase. Our draft decisions included:

- applying a 1.25% per annum efficiency factor, compounded, and
- discontinuing the UOM for these costs and smoothing recovery of the current balance over the four years of the determination period.

New allowance to address revenue volatility

Our draft decision is to include a revenue volatility allowance of $0.765 million per year. This is our estimate of the efficient cost WaterNSW incurs in bearing revenue volatility risk associated with its 40:60 fixed to variable tariff structures in most valleys, relative to an 80:20 split which better aligns with WaterNSW's cost structure.

Our draft decision also discontinues the UOM. We have adjusted prices to ensure the outstanding balance of the UOM account is paid back over time.