

WaterNSW rural bulk water prices

Length of determination from 1 July 2021

28 July 2020



WHAT

We are reviewing the maximum prices that WaterNSW can charge its rural bulk water customers from 1 July 2021.

WaterNSW has proposed we set prices at this review for 1 year only. It argues that this would allow it to consult closely with customers about water supply needs before setting prices for a longer-term, and that its pricing proposal would mitigate the impact of drought. We would then need to review and set prices again in 2022.

Alternatively, we could set prices for 4 years, and would then not need to review and set prices again until 2025.

We are seeking feedback from stakeholders and the public on whether we should set prices for 1 year or for 4 years.



WHY

For this review of WaterNSW's prices, for valleys in the Murray-Darling Basin (MDB) we are required to follow the rules set by the Commonwealth Government. Some of these rules require different approaches compared to the way IPART would otherwise set prices. This means the prices we determine will also be different.

This might be the last time these Commonwealth Government rules will apply to setting WaterNSW's prices.

We want to know whether bulk water customers have a preference for us setting prices for a 1-year period or a 4-year period under the rules. Your feedback will help us make a final decision.



WHO

- ▼ Irrigators
- ▼ Regional cities and towns
- ▼ Advocates
- ▼ Community representatives
- ▼ Other stakeholders.



WHEN

We will be accepting feedback until 18 August 2020.



WHERE

The prices we are setting apply to all rural customers in NSW who receive bulk water services from WaterNSW.



WHAT NEXT

More information on WaterNSW's pricing proposal is available on our webpage.

[WaterNSW rural bulk water prices](#)

You can click on the link below to have your say on the length of determination.

[Feedback](#)

Details on how to have your say on the length of determination are also available on IPART's webpage.

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1 What is the determination period?

We have commenced our review of the maximum prices WaterNSW can charge its customers for its rural bulk water services from 1 July 2021. The customers of this service are water access licence holders on regulated rivers in NSW.

The determination period is the length of time we set prices for. We are considering setting prices for:

- ▼ 1 year, which is what WaterNSW has proposed in its pricing application, or
- ▼ 4 years, which is the normal determination period under the rules we are required to set prices by.

When the determination period expires, we will need to set prices again.

2 What are the key issues?

We are reviewing WaterNSW's proposal for its rural bulk water prices across all its regulated rivers in NSW. However, we follow two different approaches depending on where in NSW those rivers are:

- ▼ For inland rivers in the 10 Murray-Darling Basin valleys in NSW, we have to follow the Commonwealth Government's *Water Charge (Infrastructure) Rules 2010* (the WCIR) for this review.
- ▼ For rivers in the 3 coastal valleys and for some customers on the Fish River Water Supply Scheme, we regulate prices under the NSW *Independent Pricing and Regulatory Tribunal Act 1992* (the IPART Act) and we have more discretion in how we set prices.

Between now and the next time WaterNSW's rural bulk water prices are set, the Australian Competition and Consumer Commission (ACCC) will decide whether or not the WCIR will continue to apply to those prices. If the ACCC decides that the WCIR will not continue to apply, then the next time we set prices, be that in 1 year or 4 years, we will set prices under the IPART Act, not the WCIR. This means we will have more discretion in how we set prices in all valleys in NSW, not just the coastal valleys. On the other hand, if the ACCC decides that the WCIR will continue to apply, then the ACCC will have responsibility for setting prices at the next review, using the WCIR.

Ongoing drought conditions have influenced WaterNSW's proposal

WaterNSW has asked for a 1 year determination period

WaterNSW argues in its proposal that a 1 year determination would allow it to consult with its customers on their water supply needs before prices are set for longer at the next price review. It also argues that its 1 year pricing proposal would effectively provide a reasonable period to mitigate the impact of drought and COVID-19 on customers.

A 1 year determination would also allow WaterNSW's prices for its rural bulk water services and its Broken Hill pipeline services to be incorporated into the one review from 2022-23 onwards. We are scheduled to review the prices of WaterNSW's Broken Hill pipeline services next year.

WaterNSW indicates in its proposal that its customer engagement suggests customers support a 1 year determination period.

A 1-year determination period would mean that:

- ▼ We would set prices at this review for the period from 1 July 2021 to 30 June 2022. This would be done under the Commonwealth Government's WCIR.
- ▼ We (or, possibly, the ACCC) would then conduct another review (starting next year) and set a new set of prices that applied from 1 July 2022 onwards.

WaterNSW's pricing proposal does not include forecast costs beyond 2021-22, although it has included forecasts up to 2025-26 in its accompanying information returns to IPART. We are interested in stakeholder views as to whether WaterNSW would be in a materially better position to forecast its future efficient costs for 4 plus years in June 2021 (for a potential submission to a 2021-22 price review) than now.

Customer bills will be affected by the determination period

We have to set prices that recover the efficient costs of service delivery

For this price review, the WCIR compel us to set WaterNSW's prices at levels that recover its efficient costs. This means that we do not have much discretion on how much revenue needs to be raised from customers in each of the inland valleys.

For instance, the WCIR mean we generally cannot set prices that we consider will raise less revenue than the efficient costs – even if the impacts on customer bills are significant.

We note, however, it has been our usual practice to date to set prices at levels that recover customers' share of the utility's efficient costs of service delivery.

Some costs are likely to be lower under the WCIR

In setting prices in the Murray-Darling Basin valleys at this review, we have to follow the:

- ▼ Commonwealth Government's WCIR, and
- ▼ ACCC's pricing principles for price approvals and determinations under the WCIR.

Both the WCIR and the pricing principles are very prescriptive in how we must calculate some of the costs.

One of the costs that WaterNSW faces in delivering its services is the return on assets. We normally calculate this cost by:

1. Deciding on the efficient value of WaterNSW's assets (the regulatory asset base or "RAB")
2. Multiplying that by the rate of return (or weighted average cost of capital – the "WACC").

For a utility that requires a lot of fixed assets such as dams to deliver its services, this cost can be significant.

In 2021, the WACC is likely to be significantly lower under the WCIR than under our method when we regulate prices under the IPART Act. This means that at least some of the efficient costs of delivering services may also be lower under the WCIR. This may flow through to prices.

If we set prices at this review for 1 year, any lower prices arising from the lower WACC may only be in place until June 2022. This means that if at the next review of prices commencing 1 July 2022 we use our own method (rather than the WCIR), the WACC we calculate under the WCIR would apply for 1 year rather than 4 years.

However, when we set prices under the IPART Act, we have scope for more discretion in how we calculate certain costs and how we set prices.

We are also reviewing water management charges this year

Separate to those services covered by the WaterNSW price determination, WaterNSW also provides some water management services on behalf of the Water Administration Ministerial Corporation (WAMC).

These are different to WaterNSW's bulk water delivery services, and are covered by the WAMC price determination. Our review of WAMC's prices will also occur over 2020-21, and affects many of the same stakeholders as the WaterNSW review.

The entities responsible for delivering WAMC's services, including WaterNSW, have proposed a price determination for WAMC for 4 years, commencing 1 July 2021. A 1 year price determination of WaterNSW's rural bulk water services would bring it into alignment with its Broken Hill pipeline determination, but out of alignment with the determination of prices for WAMC's water management services.

However, we may consider bringing all rural water determinations back into alignment in the future, so we can consult with stakeholders on all issues which affect them at the same time.