

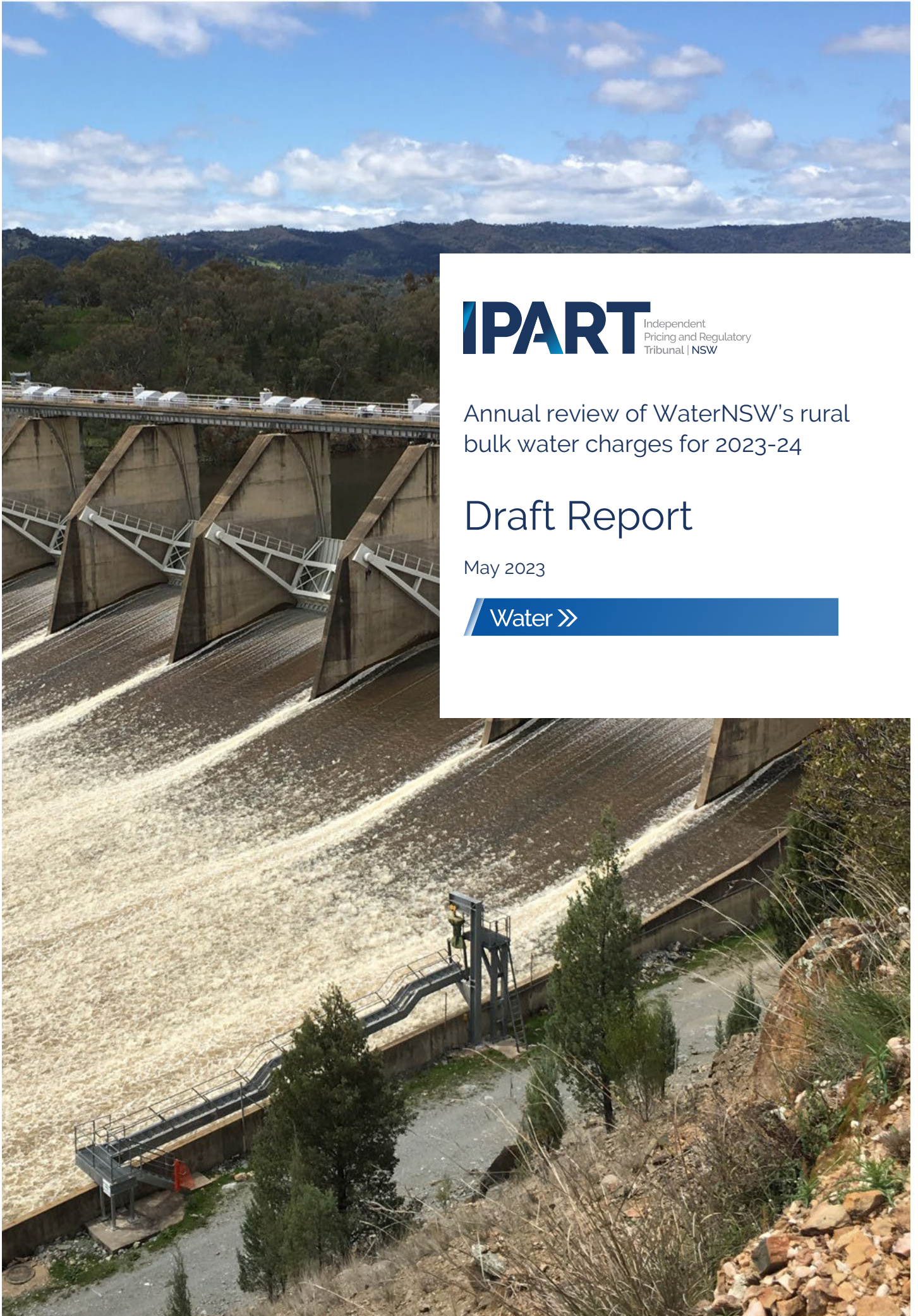


Annual review of WaterNSW's rural
bulk water charges for 2023-24

Draft Report

May 2023

Water >>



Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders both past and present. We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

Tribunal Members

The Tribunal members for this review are:

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Deborah Cope
Sandra Gamble

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Invitation for submissions

IPART invites comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

Submissions are due by Friday, 19 May 2023

We prefer to receive them electronically via our [online submission form](#).

You can also send comments by mail to:

Annual Review of rural water charges 2023
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop, Sydney NSW 1240

If you require assistance to make a submission (for example, if you would like to make a verbal submission) please contact one of the staff members listed above.

Late submissions may not be accepted at the discretion of the Tribunal. Our normal practice is to make submissions publicly available on our [website](#) as soon as possible after the closing date for submissions. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning one of the staff members listed above.

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The Independent Pricing and Regulatory Tribunal

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Contents

1	Executive Summary	1
	Increases in regulated charges would be limited to inflation	1
	We seek feedback on our draft decision	2
2	Context and approach	3
	The annual review framework is set by WCR	3
	The annual review only applies to MDB valleys and Fish River	3
	This review involves a 2-step process	5
	How we calculate updated charges	5
3	Our draft decision is to maintain charges as set in the 2021 Determination	6
3.1	While water entitlements are stable, average historical water sales are lower	6
3.2	Updating charges would generally result in charges increasing above inflation	7
3.3	WaterNSW has proposed to update charges to reflect updated water entitlement and sales data	7
3.4	We do not consider it reasonably necessary to update charges in 2023-24	8
4	Charges to apply 2023-24	11
A	Additional information on how we update charges	12

1 Executive Summary

IPART currently undertakes annual reviews of WaterNSW's regulated charges for rural bulk water services in the Murray-Darling Basin (MDB)^a and the Fish River Water Supply Scheme (Fish River). This is required under Part 6 of the *Water Charge Rules 2010 (Cth)* (WCR).^b

In September 2021, we published our [Final Report for the review of WaterNSW's rural bulk water charges](#) from 1 October 2021 to 30 June 2025 (the 2021 Determination). This is the second annual review under the 2021 Determination and provides an opportunity for us to consider whether we should update the charges to apply from 1 July 2023 to 30 June 2024 (2023-24).

Under the WCR, we may only vary the charges to the extent that it is "reasonably necessary", having regard to changes in demand or consumption forecasts for the regulated bulk water services, price stability and consistency with the WCR. We measure changes in demand or consumption by changes in water allocations, entitlements and sales. The scope of this annual review does not include reviewing other elements of our 2021 Determination, such as the efficient costs of providing these services or price structures.

This report sets out our draft decisions on WaterNSW's regulated charges for 2023-24 and explains how we have reached these draft decisions. While this report focuses on water entitlement and water usage charges, our draft decisions apply to all charges set under the WCR in the 9 MDB valleys and Fish River, including miscellaneous and metering charges. Other supporting information, including WaterNSW's pricing application, is available on our [website](#).

Increases in regulated charges would be limited to inflation

WaterNSW proposed that charges for 2022-23 be adjusted for inflation and for updated demand forecasts. The adjustments would mean that most prices would increase above inflation (i.e. above 6.7%). In its submission, WaterNSW expressed its view that water sales would continue to decline over the remainder of 2021 determination period and updating prices at this annual review could minimise sudden increases in charges at the next 2025 price review.

Our draft decision is to not accept WaterNSW's pricing application, and instead limit the increase in regulated charges to inflation. This means charges would not be adjusted for updated demand forecasts and would increase only by inflation (currently estimated to be 6.7%) from 1 July 2023.

After considering the latest changes in water sales, we have decided that it is not reasonably necessary to vary the charges set under the 2021 Determination. We have found no evidence of a sustained shift in water sales. Therefore, we do not consider it necessary to update charges for updated demand forecasts at this annual review.

^a This includes nine valleys: Border, Gwydir, Namoi, Peel, Lachlan, Macquarie, Murray, Murrumbidgee and Lowbidgee.

^b This annual review does not apply to the charges set under the IPART Act. It does not apply to the charges for rural customers in the North Coast, South Coast and Hunter Valleys or to urban customers in Fish River

We consider our approach of exercising discretion when deciding whether it is reasonably necessary to update prices at each annual review is in line with the requirements of the WCR. Our approach is to only change charges if there is evidence of a sustained shift in water sales. We consider our approach supports price stability by allowing charges to gradually adjust if there is evidence of a sustained shift in water sales while not introducing risk of price volatility in response to year-on-year fluctuations in water sales. Further, we included a revenue volatility allowance in our 2021 Determination to enable WaterNSW to manage volatility in water sales volumes over the 2021 determination period.

We seek feedback on our draft decision

We received WaterNSW's pricing application on 31 March 2023. We seek feedback on our draft decision from all interested parties by 19 May 2023. We will consider all submissions before we make our final decisions and release our Final Report and Approval in early June 2023.



Have your say

Your input is critical to our review process.

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You can get involved by making a submission or submitting feedback on our website.

2 Context and approach

The annual review framework is set by WCR

Under Part 6 of the WCR, we are accredited by the Australian Competition and Consumer Commission (ACCC) to determine WaterNSW's bulk water charges for rural customers in the MDB valleys and the Fish River.

The WCR requires us to follow a 2-stage price review process for determining or approving these regulated charges:

1. Determine the rural bulk water charges for a set determination period¹
2. Conduct an annual review of the rural bulk water charges for the second year of the period, and for each subsequent year within the determination period.²

For the annual reviews, the WCR requires that we determine the regulated charges for the relevant year.³ They also state that we must not vary the charges from those set out in the prevailing price determination, except to the extent that it is reasonably necessary, having regard to 3 matters only:

1. the "changes in the demand or consumption forecasts" set out in WaterNSW's application for an annual review
2. "price stability"⁴
3. the consistency of the charges with the requirements in other provisions of the WCR.

We completed the first stage of this price review in September 2021, when we set the charges for rural bulk water services for the 2021 determination period.

We are now undertaking the second annual review of WaterNSW's rural bulk water charges for the 2021 determination period. Our report focuses on charges that are influenced by water entitlements, allocations and water sales. However, our draft decisions apply to all charges for rural customers in the 9 MDB valleys and Fish River, including miscellaneous and metering charges.

We have also considered whether the charges we set in 2021 remain consistent with the WCR. This annual review requires us to consider the WCR as amended on 1 July 2020, whereas we applied the preceding version of the WCR in determining the charges in 2021. We have carefully compared the two versions of the WCR and are satisfied that our charges remain compliant.

The annual review only applies to MDB valleys and Fish River

Only the regulated charges that are set under the WCR are within the scope of this annual review. Therefore, the review applies to rural customers in the nine MDB valleys and Fish River (Figure 1). It does not apply to the charges for rural customers in the North Coast, South Coast, urban customers in Fish River and Hunter Valleys. These charges were set under the *Independent Pricing and Regulatory Tribunal Act 1992 (NSW)* (IPART Act) and are not subject to WCR.

Figure 1 Valleys in and out of the scope of this annual review



Note: This map is not to scale and is for illustrative purposes only. This annual review excludes urban customers in Fish River.

The annual review applies to WaterNSW, Murray-Darling Basin Authority (MDBA) and Barwon-Dumaresq Border Rivers Commission (BRC) charges. The price structure for these charges comprises of:

- Usage charges (\$ per megalitre (ML) of water used) in both the MDB valleys and Fish River. In reviewing these charges, we consider the latest data on usage volumes based on a 20-year rolling average of historical water sales volumes.
- Fixed entitlement charges (\$ per ML of licensed entitlement per year) in the MDB valleys or fixed Minimum Annual Quantity (MAQ) charges (\$ per ML of MAQ per year) in Fish River.

The scope of this annual review does not include reviewing other elements of our 2021 Determination, such as the efficient costs of providing these services or the price structures.

Although this annual review determines all WaterNSW charges, including charges for metering and telemetry services, this report focuses on charges that are impacted by changes in water entitlements and sales.

This review involves a 2-step process

In assessing whether it is necessary to update WaterNSW's regulated charges, we work through the following process.

Step 1 Update water entitlement, water sales and CPI data and calculate updated charges

We update water entitlement and sales data, calculate updated historical averages and calculate updated charges based on this updated data.

Step 2 Consider whether there is evidence of a sustained shift in demand or consumption and therefore whether to update charges

If there is evidence of a sustained shift in demand or consumption, we can be confident that updating charges to reflect this sustained shift will generally support price stability. That is, it will allow charges to begin transitioning towards levels that are likely to be determined at the next major price review. If there is no evidence of a sustained shift in demand or consumption, there is a risk that updating charges will introduce unnecessary price volatility.

How we calculate updated charges

In 2020-21, we reviewed and set WaterNSW's rural bulk water charges to apply over four years 2021-22, 2022-23, 2023-24 and 2024-25. We set these charges based on water entitlement and usage forecasts that were based on the most up to date data available at the time. For water entitlements, this was the number of entitlements in place in 2019-20 when WaterNSW developed its pricing proposal. For water usage, this was actual water usage data over the last 20 years (2000-01 to 2019-20). The first step of the annual review process involves calculating updated charges based on the following updates to entitlement and water usage data:

1. For the 2022-23 annual review, we calculate updated charges for 2022-23 based on the number of entitlements in place in 2021-22 and water usage data over the most recent 20 years (i.e. rolling the 20-year average forward one year to 2001-02 to 2020-21).
2. For the 2023-24 annual review, we calculate updated charges for 2023-24 based on the number of entitlements in place in 2022-23 and water usage data over the most recent 20 years (i.e. rolling the 20-year average forward two years to 2002-03 to 2021-22).
3. For the 2024-25 annual review, we calculate updated charges for 2024-25 based on the number of entitlements in place in 2023-24 and water usage data over the most recent 20 years (i.e. rolling the 20-year average forward three years to 2003-04 to 2022-23).

3 Our draft decision is to maintain charges as set in the 2021 Determination

We have made a draft decision to maintain WaterNSW's MDB charges for 2023-24 as set in the 2021 Determination. That is, charges will not be updated to reflect updated water entitlement and sales forecasts and will instead increases in charges will be limited to inflation of approximately 7% from 1 July 2023. This is based on our assessment that it is not reasonably necessary to vary charges because we have not found evidence of a sustained shift in demand or consumption and therefore, we cannot be confident that updating charges in 2023-24 would lead to improved price stability.

Our draft decision is



1. To maintain the regulated charges set under the 2021 Determination for 2023-24, adjusted for inflation.

3.1 While water entitlements are stable, average historical water sales are lower

Table 3.1 shows that while water entitlements have remained stable, average historical water sales used to forecast demand have declined from the 20-year average used to forecast demand in the 2021 Determination (i.e. 2000-01 to 2019-20) to the updated 20-year average used to calculate updated charges in the 2023-24 Annual Review (i.e. 2002-03 to 2021-22).

Table 3.1 Water entitlement and average historical sales (ML)

	Water entitlements			Average historical water sales		
	2021 Determination	2023-24 Review	% change	2021 Determination	2023-24 Review	% change
Border	266,359	266,359	0.00%	139,453	129,321	-7.3%
Gwydir	536,585	536,885	0.06%	220,489	202,456	-8.2%
Namoi	265,395	265,532	0.05%	138,241	125,303	-9.4%
Peel	47,002	46,678	-0.69%	12,625	12,053	-4.5%
Lachlan	690,418	690,436	0.00%	182,100	155,656	-14.5%
Macquarie	675,157	675,129	0.00%	232,545	199,133	-14.4%
Murray	2,347,178	2,345,286	-0.08%	1,379,454	1,306,110	-5.3%
Murrumbidgee	2,704,141	2,706,285	0.08%	1,531,632	1,492,183	-2.6%
Lowbidgee	747,000	747,000	0.00%	n/a	n/a	n/a
Total	8,279,235	8,279,590	0.00%	3,836,539	3,622,215	-5.6%

Sources: IPART, Prices for rural bulk water services from 1 October 2021 – Final Report, September 2021, pp 112-113 and WaterNSW's pricing application for the 2023-24 annual review.

Note: WaterNSW levies fixed entitlement charges (and does not levy variable usage charges) on Lowbidgee entitlements.

Table 3.2 shows that for the Fish River Water Supply Scheme (FRWSS), Minimum Annual Quantities (MAQs) are stable and average historical water sales used to forecast demand have declined from the 20-year average used to forecast demand in the 2021 determination to the updated 20-year average used to calculate updated charges in the 2023-24 Annual Review.

Table 3.2 Minimum annual quantities and average historical sales in FRWSS (ML)

	Minimum annual quantities (MAQ)			Average historical water sales		
	2021 Determination	2023-24 Review	% change	2021 Determination	2023-24 Review	% change
Raw Water						
EnergyAustralia	8,184	8,184	0%	1,850	1,648	-11%
WNSW (GS)	3,650	n/a	n/a	2,142	n/a	n/a
Oberon Council	1,064	n/a	n/a	681	n/a	n/a
Lithgow Council	100	n/a	n/a	100	n/a	n/a
Minor customers	17	18	6%	51	51	0%
Filtered Water						
Lithgow Council	1,678	n/a	n/a	826	n/a	n/a
Minor customers	46	47.8	4%	103	97	-6%

Sources: IPART, Prices for rural bulk water services from 1 October 2021 – Final Report, September 2021, pp 119-121 and WaterNSW's pricing application for the 2023-24 annual review.
Note: n/a fields were not reported in WaterNSW's application.

3.2 Updating charges would generally result in charges increasing above inflation

If 2023-24 charges are maintained in line with the 2021 Determination, charges and bills would increase by inflation which is currently estimated to be 6.7%.

If 2023-24 charges are updated based on updated water entitlement and usage data:

- Bills for General Security customers would increase by between 6.6% (Lowbidgee) and 21.5% (Lachlan).
- Bills for High Security customers would increase by between 8.6% (Murrumbidgee) and 23.1% (Macquarie).
- Bills for Fish River customers would increase by between 7.0% (Raw water minor customers) and 12.3% (Filtered water minor customers).

3.3 WaterNSW has proposed to update charges to reflect updated water entitlement and sales data

WaterNSW provided its annual pricing application to IPART on 31 March 2023. In its pricing application, it proposed to update MDB charges for 2023-24 to reflect both updated water entitlement and sales forecasts, as well as inflation. WaterNSW's proposal would mean that that most MDB charges would increase above inflation in 2023-24.⁵

In its submission, WaterNSW noted that it expected the 20-year rolling average of water usage to decline in current and future years, leading to further volume reductions, and consequently, the need for price increases. It therefore proposed that 2023-24 MDB charges should be updated to reflect:⁶

- Updated water entitlement forecasts and high security premiums, using latest actual data
- An updated 20-year rolling average of water sales, using its recent 2020—21 and 2021-22 demand data, and
- CPI increases, currently estimated to be 6.7%.

WaterNSW expressed that its proposal to update 2023-24 charges for lower demand forecasts would increase prices now and thereby reduce future price shocks at the next price review. It also noted that its expected downward trend in water sales was supported by its understanding of evolving climatic conditions, as well as scientific consensus including a CSIRO state of the climate report predicting longer and more frequent droughts (particularly in drier parts of Australia) caused by climate change.⁷

WaterNSW also submitted that increasing charges would improve its financial sustainability by allowing for the sufficient recovery of its prudent and efficient costs over the 2021 determination period. Specifically, WaterNSW estimates that it will under-recover its revenue requirement over the 2021 determination period and submitted that updating prices would therefore enable it to provide its regulated services on a sustainable basis and this is in-line with the long-term interests of customers.⁸

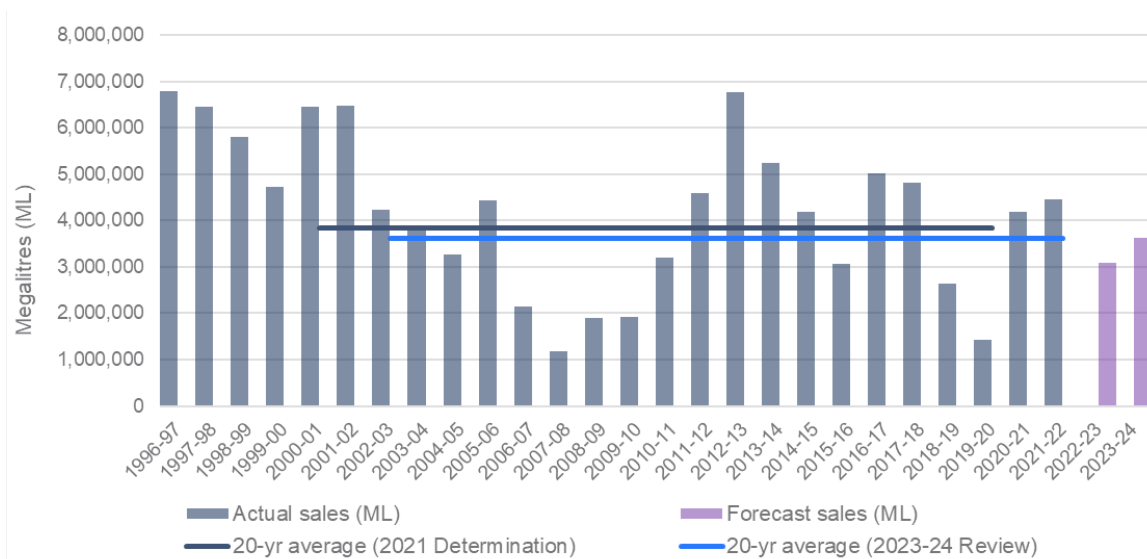
3.4 We do not consider it reasonably necessary to update charges in 2023-24

In our 2021 price review, we included a revenue volatility allowance in WaterNSW's charges for the 2021 determination period.⁹ This revenue volatility allowance is designed to allow WaterNSW to insure against year-to-year differences in actual water sales over the determination period. Therefore, when considering whether it is reasonably necessary to update charges, we do not focus on year-to-year differences in actual water sales. Instead, we focus on whether there is evidence of a sustained shift in demand such that updating prices would be likely to improve price stability.

This section presents our analysis supporting our draft decision to maintain 2023-24 charges in line with the 2021 Determination.

Figure 1 shows actual water sales over the last 26 years (1996-97 to 2021-22), forecast water sales for 2022-23 and 2023-24, the 20-year average water sales used to set charges in the 2021 Determination (2000-01 to 2019-20) and the updated 20-year average water sales used to calculate updated charges for 2023-24 in this annual review (2002-03 to 2021-22).

Figure 2 Historical water sales



Source: IPART analysis

In its pricing application, WaterNSW argues that the 20-year average used to forecast demand and set prices in the 2021 Determination is too high and does not reflect recent water usage trends. However, we note the two most recent years of actual water sales data (i.e. 2020-21 and 2021-22) are both higher than the 20-year average used to set prices in the 2021 Determination. Water sales in 2021-22 were 16% higher than the forecast used to set prices in the 2021 Determination. This does not support the argument that the 20-year average used to set prices in the 2021 determination was too high and does not reflect recent water usage conditions.

WaterNSW forecasts a reduction in water sales in 2022-23 primarily driven by flood conditions. We agree water sales in 2022-23 are likely to be impacted by flood conditions. However, the size of the impact is not yet known (we note WaterNSW described its forecast for 2022-23 as the 'minimum scenario') and these impacts are likely to be temporary rather than sustained.

WaterNSW forecasts water sales in 2023-24 equal to the updated 20-year average (2001-02 to 2021-22). However, we consider several factors could support higher than average water sales in NSW in 2023-24 (and potentially in 2024-25), including:

- high dam storage levels (currently above 90% across NSW)¹⁰
- high water allocation rates (currently close to 100% across NSW)¹¹, and
- the potential transition to a period of drier conditions and recovering agricultural production.^c

^c The ABARES Water Market Outlook – April 2023 indicates a potential move towards drier conditions in 2023-24 and favourable conditions for irrigation activities such as cotton and rice. Report available at: [Water Market Outlook – April 2023 - DAFF \(agriculture.gov.au\)](https://www.daff.gov.au/water-market-outlook-april-2023)

WaterNSW's pricing application refers the CSIRO State of the Climate Report 2020¹² which predicts more frequent and prolonged periods of drought particularly in dry regions of Australia. WaterNSW suggests these conditions are likely to result in lower average water usage going forward. The relationship between weather conditions and the demand and supply of bulk water is complex and not perfectly understood at present. We encourage WaterNSW to further investigate how changes in weather conditions (including prolonged periods of drought) are likely to impact water demand and supply across NSW going forward. This work could inform the consideration of alternative approaches to forecasting water usage at the next price review.

4 Charges to apply 2023-24

We have calculated the charges that customers would pay in 2023-24 based on our draft decision to maintain regulated charges as set under the 2021 Determination. These charges are shown in Table 4.1, Table 4.2 and Table 4.3. Our draft decision also applies to other charges in the 9 MDB valleys and Fish River, including miscellaneous and metering charges.

For the Draft Report, we used an inflation rate of 6.7% to convert the charges to nominal dollars for the 2023-24 period. This estimated inflation rate of 6.7% will be updated and is subject to change between our draft and final reports.

Table 4.1 WaterNSW rural bulk water charges for 2023-24 (\$2023-24)

Valley	HS fixed charge (\$/ML)	GS fixed charge (\$/ML)	Usage charge (\$/ML)
Border	7.38	2.70	7.88
Gwydir	19.51	4.53	19.27
Namoi	32.43	11.32	34.62
Peel	68.78	6.52	27.48
Lachlan	28.14	4.16	34.94
Macquarie	22.62	4.42	24.26
Murray	2.53	1.11	3.28
Murrumbidgee	4.67	1.60	5.57
Lowbidgee	0.00	1.93	0.00

Source: IPART, *Prices for rural bulk water services from 1 October 2021 – Determination*, September 2021, p 8, adjusted for inflation.

Table 4.2 MDBA and BRC rural bulk water charges for 2023-24 (\$2023-24)

Valley	HS fixed charge (\$/ML)	GS fixed charge (\$/ML)	Usage charge (\$/ML)
Border	5.43	1.98	0.96
Murray	9.69	4.26	2.07
Murrumbidgee	2.09	0.72	0.41

Source: IPART, *Prices for rural bulk water services from 1 October 2021 – Determination*, September 2021, p 9, adjusted for inflation.

Table 4.3 Fish River rural bulk water charges for 2023-24 (\$2023-24)

Valley	Access (or MAQ) charge (\$/kL)	Usage up to MAQ (\$/kL)	Usage in excess of MAQ (\$/kL)
Raw water – major customers	0.55	0.37	0.92
Raw water – minor customers	0.55	0.37	0.92
Filtered water – minor customers	0.96	0.59	1.55

Source: IPART, *Prices for rural bulk water services from 1 October 2021 – Determination*, September 2021, pp 16-17, adjusted for inflation.

A Additional information on how we update charges

Our draft decision is to increase charges in MDB and Fish River by inflation. This means we are not updating charges based on changes in consumption or demand forecasts. For completeness, we present the following indicative charges for 2023-24 if we did decide to update charges to reflect the updated water data provided to us by WaterNSW. It is for information only. The formula we use to update charges are consistent with the approach detailed in [2022-23 Annual Review of WaterNSW's rural water charges](#). The full calculation and other information can be found in the accompanying spreadsheet model available on our [website](#).

Table A.1 Indicative WaterNSW rural charges based on latest data

Valley	HS fixed charge (\$/ML)		GS fixed charge (\$/ML)		Usage charge (\$/ML)	
	Current (\$2022-23)	2023-24 (\$2023-24)	Current (\$2022-23)	2023-24 (\$2023-24)	Current (\$2022-23)	2023-24 (\$2023-24)
Border	6.92	7.75	2.53	2.70	7.39	8.50
Gwydir	18.29	18.53	4.25	4.57	18.07	20.99
Namoi	30.41	33.33	10.62	11.29	32.45	38.19
Peel	64.49	69.66	6.12	6.08	25.76	28.78
Lachlan	26.38	28.83	3.90	4.09	32.76	40.88
Macquarie	21.21	25.79	4.14	4.20	22.74	28.33
Murray	2.38	2.63	1.04	1.10	3.08	3.46
Murrumbidgee	4.38	4.71	1.50	1.59	5.22	5.72
Lowbidgee	0.00	0.00	1.81	1.93	0.00	0.00

Source: IPART analysis.

Table A.2 Indicative MDBA and BRC rural charges based on latest data (\$2023-24)

Valley	HS fixed charge (\$/ML)		GS fixed charge (\$/ML)		Usage charge (\$/ML)	
	Current (\$2022-23)	2023-24 (\$2023-24)	Current (\$2022-23)	2023-24 (\$2023-24)	Current (\$2022-23)	2023-24 (\$2023-24)
Border	5.09	5.69	1.86	1.98	0.90	1.04
Murray	9.08	10.10	3.99	4.23	1.94	2.19
Murrumbidgee	1.95	2.11	0.67	0.71	0.39	0.43

Source: IPART analysis.

Table A.3 Indicative Fish River rural charges based on latest data (\$2023-24)

Valley	Access (or MAQ) charge (\$/kL)		Usage up to MAQ (\$/kL)		Usage in excess of MAQ (\$/kL)	
	Current (\$2022-23)	2023-24 (\$2023-24)	Current (\$2022-23)	2023-24 (\$2023-24)	Current (\$2022-23)	2023-24 (\$2023-24)
Raw water – major	0.51	0.55	0.35	0.41	0.86	0.96
Raw water – minor	0.51	0.55	0.35	0.37	0.86	0.92
Filtered water – minor	0.90	0.96	0.56	0.68	1.46	1.64

Source: IPART analysis.

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¹ *Water Charge Rules 2010* Part 6 Division 2.

² *Water Charge Rules 2010* Part 6 Division 3.

³ *Water Charge Rules 2010* Rule 29.

⁴ *Water Charge Rules 2010* Sub-rule 37(2).

⁵ WaterNSW, Application to IPART's 2023-24 Review of Regulated Charges – Cover Letter, March 2023, pp 1-2.

⁶ WaterNSW, Application to IPART's 2023-24 Review of Regulated Charges – Cover Letter, March 2023, pp 1-2.

⁷ WaterNSW, Application to IPART's 2023-24 Review of Regulated Charges – Cover Letter, March 2023, p 2.

⁸ WaterNSW, Application to IPART's 2023-24 Review of Regulated Charges – Cover Letter, March 2023, pp 2-3.

⁹ IPART Review of WaterNSW rural bulk water charges from 1 October 2021 - Final Report, p75.

¹⁰ <https://www.waternsw.com.au/nsw-dams/nsw-storage-levels/regional-nsw-dam-levels>

¹¹ <https://www.industry.nsw.gov.au/water/allocations-availability/allocations/summary>

¹² <http://www.csiro.au/en/Showcase/state-of-the-climate>