



IPART Independent
Pricing and Regulatory
Tribunal | NSW

Annual review of WaterNSW's rural
water charges for 2022-23

Draft Report

April 2022

Water »

Tribunal Members

The Tribunal members for this review are:

Carmel Donnelly, Chair
Deborah Cope
Sandra Gamble

Enquiries regarding this document should be directed to a staff member:

Matthew Mansell (02) 9113 7770
Maricar Horbino (02) 9290 8409
Adrian Thomas (02) 9019 1921

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, 13 May 2022

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 2022
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.

We may decide not to publish a submission, for example, if we consider it contains offensive or potentially defamatory information. We generally do not publish sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please let us know when you make the submission. However, it could be disclosed under the *Government Information (Public Access) Act 2009* (NSW) or the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW), or where otherwise required by law.

If you would like further information on making a submission, IPART's [submission policy](#) is available on our website.

The Independent Pricing and Regulatory Tribunal (IPART)

Further information on IPART can be obtained from IPART's [website](#).

Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders, past, present and emerging.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

Contents

Executive summary

Regulated charges would increase by inflation only	4
We seek feedback on our draft decision	5

Context and our approach

The annual review framework is set by WCR	6
The annual review only applies to MDB valleys and Fish River	6
Our assessment follows a 2-step approach	8

Our assessment of rural charges for 2022-23

WaterNSW proposed increasing charges by inflation only	9
We do not see evidence of a sustained shift in water sales	9
WaterNSW proposed a formula-driven assessment process	12
We see merit in applying discretion to updating charges at each annual review	12

Charges to apply in 2022-23

A Additional information on how we update charges

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 first annual review for the 2021 Determination and provides an opportunity for us to consider whether we should update the charges to apply from 1 July 2022 to 30 June 2023 (2022-23).

Under the WCR, we may only vary the charges to the extent that it is "reasonably necessary" to do so, 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 the price structures.

This report sets out our draft decisions on WaterNSW's regulated charges for 2022-23 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](#).

Regulated charges would increase by inflation only

WaterNSW requested that IPART approve charges for 2022-23 in line with the 2021 Determination and adjust those charges by inflation only. While in principle WaterNSW would support us updating charges, it proposed to keep charges unchanged before inflation to limit the impact on customers who have been and are continuing to experience the impacts of flooding across NSW.

Our draft decision is to accept WaterNSW's pricing application to maintain the regulated charges as set under the 2021 Determination. This means charges would only increase by inflation (currently estimated to be 3.2%) from 1 July 2022.

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.

In its pricing application, WaterNSW also proposed to introduce a more formula-driven price adjustment for future annual reviews. WaterNSW said this was to secure sufficient revenue streams for its business and promote price stability for customers.

^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

Our draft decision is to maintain discretion when considering whether to update charges. We consider our approach remains appropriate for future annual reviews and 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. Under WaterNSW's proposal, charges would change each year in response to year to year fluctuations in water sales. We consider our approach supports price stability by allowing charges to gradually adjust in response to a sustained shift in water sales while not introducing price volatility in response to year-on-year fluctuations in water sales. Further, we set a revenue volatility allowance in our 2021 Determination to enable WaterNSW to manage the risk of actual water sales being higher or lower than forecast.

We seek feedback on our draft decision

We seek feedback on our draft decision from all interested parties by 13 May 2022. We will consider all submissions before we make our final decisions and release our Final Report and Approval in June 2022.



Have your say

Your input is critical to our review process.

[Make a submission »](#)

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

We are seeking feedback by 13 May 2022 on our draft decisions and the issues we have identified.

Context and our 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 first 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 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.

Our assessment follows a 2-step approach

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

Step Update data and calculate updated charges

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

Step Consider whether there is evidence of a sustained shift in demand or consumption and therefore whether or not to update charges

02

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 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.

Our assessment of rural charges for 2022-23

We have made the draft decision to accept WaterNSW's application to maintain the rural water charges for 2022-23 set under the 2021 Determination. That is, charges will only be adjusted for inflation of 3.2% from 1 July 2022. This is consistent with our assessment that it is not reasonably necessary to vary charges because we have not found evidence of a sustained shift in water sales.

We also made the draft decision to maintain our current approach for future annual reviews. We consider our approach is consistent with the requirements under WCR.

This chapter sets out WaterNSW's pricing application and our assessment in response. We have separated WaterNSW's application into 2 sections: WaterNSW's proposal for charges to apply in 2022-23 and WaterNSW's proposal for a formula-driven approach for future annual reviews. Each section is followed by our respective response and assessment.

WaterNSW proposed increasing charges by inflation only

WaterNSW submitted its pricing application for the annual review of rural water charges in MDB valleys and Fish River for 2022-23 to IPART on 4 April 2022. In its pricing application, WaterNSW requested that IPART approve regulated charges for 2022-23 in line with the 2021 Determination and adjust those charges by inflation only.

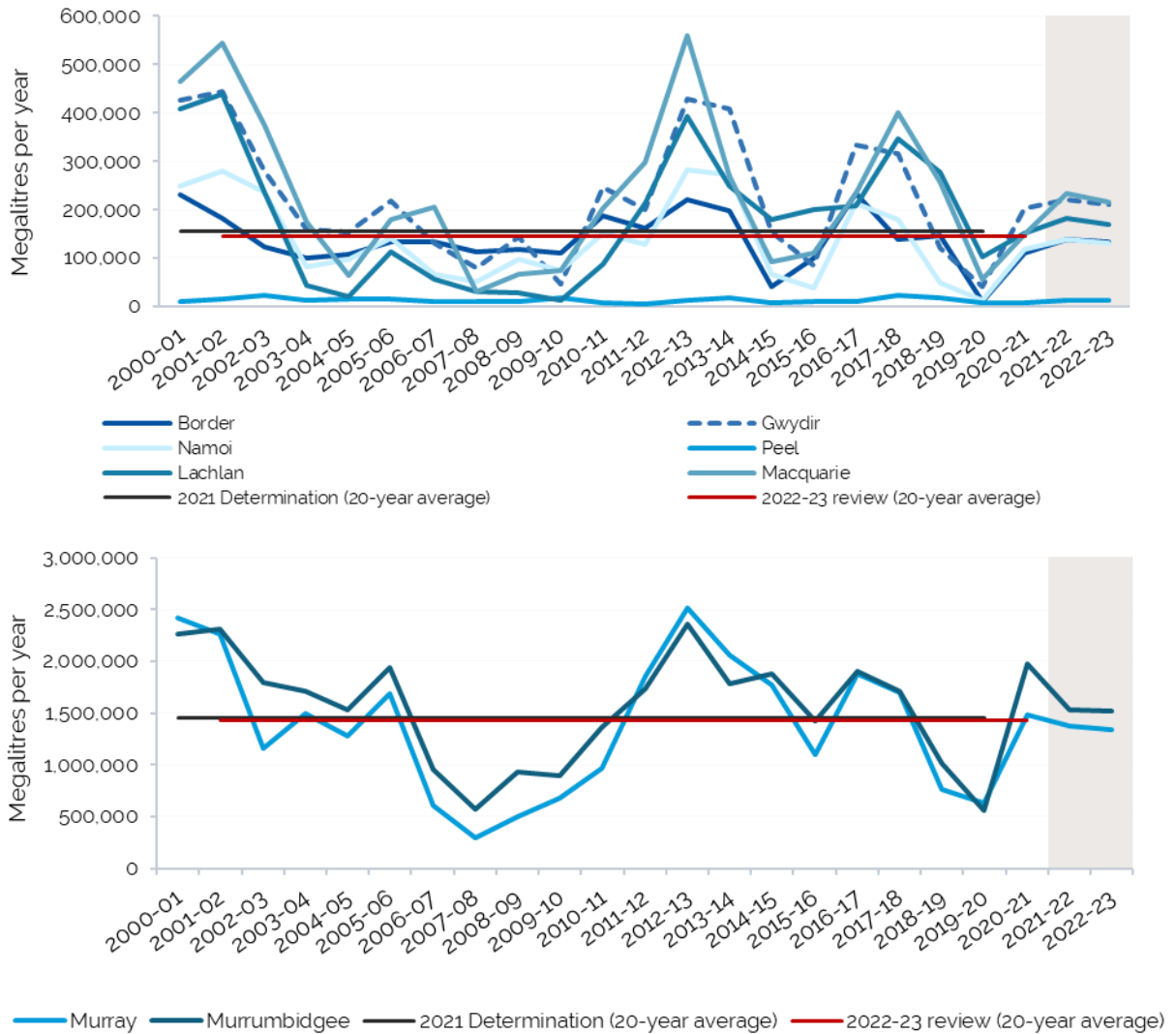
WaterNSW did not request to change charges for 2022-23 based on changes in water demand or consumption (i.e. using latest data on water entitlements, allocations and sales). It considered the need to provide price relief to customers as it recognised that rural regions are experiencing economic uncertainty caused by recent flooding.

We do not see evidence of a sustained shift in water sales

We focused our assessment on changes in water sales. This is because we found water entitlements or minimum annual quantity have been relatively consistent with the levels we used to set charges in 2021.

For MDB valleys, the long-term averages for water sales volumes have remained relatively stable. In Figure 2, we observed annual volumes have been volatile over the last 20 years and significant increases or decreases in volumes year-on-year are not unusual. However, the updated 20-year rolling averages for sales volumes is only decreasing by around 3% from the levels we used to set charges in 2021 (represented by the black and red lines in Figure 2). The key driver for this marginal decline is the sales volumes captured within the 20-year averaging period. We did not observe a consistent change in recent years to suggest that there has been a sustained shift in sales volume. Therefore, we consider there is no evidence of sustained shift in sales based on historical data.

Figure 2 Historical and forecast water sales volumes in MDB valleys



Note: The 2000-01 to 2019-20 historical sales volumes are based on the data used in the 2021 Determination while the 2020-21 to 2022-23 actual and forecast sales volumes are from WaterNSW's 2022-23 pricing application to IPART.

Source: 2021 Determination model with data provided by WaterNSW.

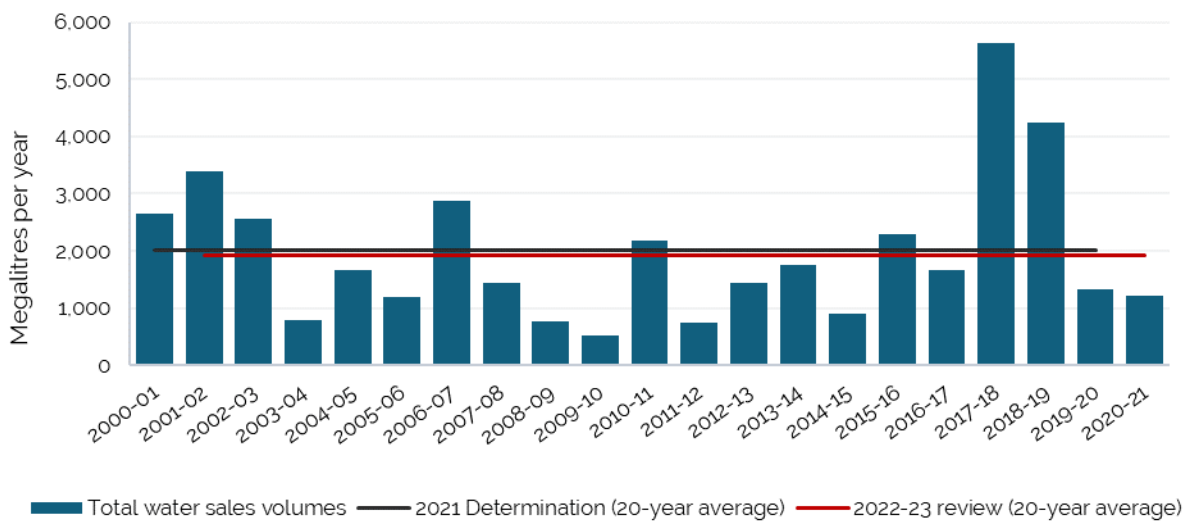
In addition, we are not aware of information to suggest there would be a sustained shift in future sales volume. WaterNSW did not provide updated forecast water sales for 2021-22 and onwards.^c It provided the sales volumes that were used to set charges in the 2021 Determination because WaterNSW is uncertain about the impact of the recent severe rainfall and flood events in NSW on water sales. We consider this signals that it is too early to know whether recent changes in sales represent a sustained shift.

^c We note that WaterNSW provided a forecast for 2022-23 using the 20-year rolling average approach used in the 2021 Determination. WaterNSW did not provide forward looking forecasts that considered recent rain and flooding events.

We understand there are a number of factors that influence water sales in each valley such as weather, availability of water, commodity charges and other economic conditions. The impact of these factors on water sales are complex. For example, the occurrence, severity and impact of weather events are difficult to predict. Recent rain events have increased dam storage levels across NSW to around 93% capacity⁵ and would likely lead to greater water availability across the state. However, how this will impact water sales in the short and longer term, given all the other factors at play, is unclear at this stage.

For Fish River, we also did not find evidence of a sustained shift in water sales. Similar to MDB valleys, the annual volumes in Fish River are also volatile. However the updated 20-year rolling average for sales volumes is only decreasing by around 4% (represented by the black and red lines in Figure 3). The driver for this marginal decline is the sales volumes captured within the 20-year averaging period. Therefore, we consider this does not represent a sustained shift in sales. We are also not aware of information to suggest there would be a sustained shift in future sales volume in Fish River.

Figure 3 Total sales and rolling averages used to forecast FRWS sales



Source: WaterNSW submission to IPART annual price review (data input into IPART model), March 2022 and IPART analysis.

Overall, we do not consider there is evidence of a sustained shift in water sales. Therefore, we have decided to adjust charges by inflation only.

Our draft decision is

- 1. To maintain the regulated charges set under the 2021 Determination for 2022-23, adjusted for inflation only.

WaterNSW proposed a formula-driven assessment process

In its pricing application, WaterNSW proposed IPART introduce a formula-driven price adjustment in the MDB valleys for future annual reviews that secures enough revenue for WaterNSW while maintaining price stability for its customers.⁶

WaterNSW suggested there would be several benefits from updating charges each year. For example, WaterNSW considered it could promote long term price stability because it could avoid price shocks at the next determination if water sales changed significantly. Another benefit WaterNSW noted is that using the latest water sales could lead to more accurate forecasting and charges.

WaterNSW also welcomed the preliminary findings of IPART's Economic Framework Review, in which IPART is exploring the benefits of implementing more flexible forms of price control. Similarly, it expressed eagerness to work with IPART to introduce potential flexible forms of price control at the next determination.

We see merit in applying discretion to updating charges at each annual review

Our current approach involves examining the data and looking for evidence of a sustained shift in demand or consumption to inform our decision on whether it is reasonably necessary to update charges.

We consider WaterNSW's proposal for a formula-based approach could introduce price volatility. This is because charges would change in response to fluctuations and temporary changes in water sales.

We agree a formula-based approach would provide greater revenue certainty to WaterNSW. However, we explicitly acknowledged revenue volatility risk and set a revenue volatility allowance to compensate WaterNSW for carrying this risk as part of our 2021 Determination.

Our draft decision is to maintain our discretion-based approach to annual reviews of WaterNSW's charges. We consider our approach remains appropriate for future annual reviews and is in line with the requirements under WCR.

Our draft decision is



2. To maintain our current discretion-based approach for future annual reviews when considering whether it is reasonably necessary to update charges.

Charges to apply in 2022-23

We have calculated the charges that customers would pay in 2022-23 based on our draft decision to maintain regulated charges as set under the 2021 Determination. These charges are shown in Table 1, Table 2 and Table 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 3.2% to convert the charges to nominal dollars for the 2022-23 period. This inflation rate may change for the Final Report to be released in June 2022.

Table 1 WaterNSW rural bulk water charges for 2022-2023 (\$2022-23)

Valley	HS fixed charge (\$/ML)	GS fixed charge (\$/ML)	Usage charge (\$/ML)
Border	6.79	2.49	7.25
Gwydir	17.96	4.17	17.74
Namoi	29.86	10.42	31.87
Peel	63.32	6.01	25.29
Lachlan	25.90	3.83	32.17
Macquarie	20.83	4.07	22.33
Murray	2.33	1.02	3.02
Murrumbidgee	4.30	1.48	5.13
Lowbidgee	0.0	1.78	0.0

Source: IPART, *Prices for rural bulk water services from 1 October 2021 – Determination*, September 2021, pp 10-11, adjusted for inflation.

Table 2 MDBA and BRC rural bulk water charges for 2022-2023 (\$2022-23)

Valley	HS fixed charge (\$/ML)	GS fixed charge (\$/ML)	Usage charge (\$/ML)
Border	4.99	1.83	0.89
Murray	8.92	3.92	1.91
Murrumbidgee	1.92	0.66	0.38

Source: IPART, *Prices for rural bulk water services from 1 October 2021 – Determination*, September 2021, p 12, adjusted for inflation.

Table 3 Fish River rural bulk water charges for 2022-2023 (\$2022-23)

Valley	Access (or MAQ) charge (\$/kL)	Usage up to MAQ (\$/kL)	Usage in excess of MAQ (\$/ML)
Raw water – major customers	0.51	0.34	0.85
Raw water – minor customers	0.51	0.34	0.85
Filtered water – minor customers	0.89	0.55	1.43

Source: IPART, *Prices for rural bulk water services from 1 October 2021 – Determination*, September 2021, p 13, 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 only. This means we are not updating charges based on changes in consumption.

For completeness, we present the following indicative charges for 2022-23 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 [2020-21 Annual Review of WaterNSW's rural water charges](#). The full calculation and other information can be found in the accompanying spreadsheet model which is available in our [website](#).

Table A.1 Indicative WaterNSW rural charges based on latest data (\$2022-23)

Valley	HS fixed charge (\$/ML)	GS fixed charge (\$/ML)	Usage charge (\$/ML)
Border	7.16	2.48	7.59
Gwydir	18.72	4.12	18.68
Namoi	33.18	10.30	33.44
Peel	64.13	5.59	25.69
Lachlan	28.42	3.60	34.59
Macquarie	24.02	3.86	23.96
Murray	2.40	1.00	3.13
Murrumbidgee	4.41	1.46	5.18
Lowbidgee	0.00	1.78	0.00

Source: IPART analysis.

Table A.2 Indicative MDBA and BRC rural charges based on latest data (\$2022-23)

Valley	HS fixed charge (\$/ML)	GS fixed charge (\$/ML)	Usage charge (\$/ML)
Border	5.26	1.83	0.93
Murray	9.21	3.83	1.97
Murrumbidgee	1.97	0.65	0.38

Source: IPART analysis.

Table A.3 Indicative Fish River rural charges based on latest data (\$2022-23)

Valley	Access (or MAQ) charge (\$/kL)	Usage up to MAQ (\$/kL)	Usage in excess of MAQ (\$/ML)	
Raw water – major customers		0.51	0.35	0.86
Raw water – minor customers		0.51	0.34	0.84
Filtered water – minor customers		0.89	0.59	1.47

Source: IPART analysis.

¹ *Water Charge (Infrastructure) Rules 2010* Part 6 Division 2.

² *Water Charge (Infrastructure) Rules 2010* Part 6 Division 3.

³ *Water Charge (Infrastructure) Rules 2010* Rule 29.

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

⁵ WaterNSW, [Regional NSW Storage Levels](#), accessed 12 April 2022.

⁶ WaterNSW, Application to IPART's 2022-23 Review of Regulated Charges, April 2022, p 2.

© Independent Pricing and Regulatory Tribunal (2022).

With the exception of any:

- a. coat of arms, logo, trade mark or other branding;
- b. photographs, icons or other images;
- c. third party intellectual property; and
- d. personal information such as photos of people.

this publication is licensed under the Creative Commons Attribution-NonCommercial-NoDerivs 3.0 Australia Licence.



The licence terms are available at the [Creative Commons website](#)

IPART requires that it be attributed as creator of the licensed material in the following manner: © Independent Pricing and Regulatory Tribunal (2022).

The use of any material from this publication in a way not permitted by the above licence or otherwise allowed under the Copyright Act 1968 (Cth) may be an infringement of copyright. Where you wish to use the material in a way that is not permitted, you must lodge a request for further authorisation with IPART.

Disclaimer

Nothing in this document should be taken to indicate IPART's or the NSW Government's commitment to a particular course of action.

This document is published for the purpose of IPART fulfilling its statutory or delegated functions as set out in this document. Use of the information in this document for any other purpose is at the user's own risk, and is not endorsed by IPART.

ISBN 978-1-76049-571-8