



**IPART** Independent  
Pricing and Regulatory  
Tribunal | NSW

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

# Final Report

June 2022

Water »

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## **Tribunal Members**

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## **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.

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## Executive summary

IPART has completed its annual review of WaterNSW's regulated charges for rural bulk water services in the Murray-Darling Basin (MDB)<sup>1</sup> and the Fish River Water Supply Scheme (Fish River). We have reviewed the charges set out under the 2021 Determination of WaterNSW's rural bulk water charges from 1 October 2021 to 30 June 2025 (the 2021 Determination). We have decided not to vary any of the charges set out in our 2021 Determination for 2022-23.

Under the *Water Charge Rules 2010 (Cth)* (WCR), we may only vary the charges from the 2021 Determination 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 did 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 decisions on WaterNSW's regulated charges for 2022-23 and explains how we have reached these decisions. While this report focuses on water entitlement and water usage charges, our 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](#).

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.

<sup>1</sup> This includes nine valleys: Border, Gwydir, Namoi, Peel, Lachlan, Macquarie, Murray, Murrumbidgee and Lowbidgee.

## Regulated charges will increase by inflation only from 1 July 2022

WaterNSW requested that IPART approve charges for 2022-23 in line with the 2021 Determination and adjust those charges by inflation only. 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 decision is to accept WaterNSW's pricing application to maintain the regulated charges as set under the 2021 Determination. After considering the latest changes in water sales, we decided that it is not reasonably necessary to vary the charges set under the 2021 Determination. This is because we found no evidence of a sustained shift in water sales. However, the 2021 Determination includes indexation for most charges. Therefore, this means most charges for 2022-23 will increase by inflation, which is 5.1%, from 1 July 2022 to 30 June 2023.

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.

Our 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 received feedback on our draft decisions

On 22 April, we published our Draft Report, Draft Approval and financial model and invited stakeholders to provide feedback on our draft decisions. In response, we received one confidential submission and one public submission from Inverell Shire Council. The public submission raised several issues about our Draft Report. For example, the Council was concerned that price increases appeared to be higher than inflation. The Council was also concerned about the impact that price increases would have on water customers in the Border Rivers and Gwydir River valley.<sup>i</sup>

To address Council's first concern, our draft decision was to maintain charges for 2022-23 as set in the 2021 Determination. In our [Draft Report](#), we showed most charges were increasing by inflation only. In Appendix A of this report, we compare prices for 2021-22 and 2022-23 and show prices increasing by 5.1%.

In addition, we acknowledge the Council's concern about the impact that price increases would have on customers. When we set prices in our 2021 Determination, we made sure that rural customers pay no more than is required to receive safe and reliable bulk water services from WaterNSW.

We also acknowledge the current high inflation rate of 5.1% is increasing the costs of goods and services and adding to cost of living pressures. We note that the recent spike in inflation is being driven by several factors including upstream cost pressures and follows several years of relatively low inflation (averaging around 1% to 2% between 2015 and 2021).<sup>ii</sup> We note the Reserve Bank is forecasting inflation to fall towards 3% in the medium term.<sup>iii</sup>

Our final decision considered whether any new information (including from submissions) provided evidence of a sustained shift in water sales and therefore whether it was reasonably necessary to update charges for 2022-23. We have not found evidence of a sustained shift in water sales, therefore our final decision is to maintain the charges set under the 2021 Determination. This means adjusting most of WaterNSW's rural bulk water charges in line with inflation, which is 5.1%, from 1 July 2022 to 30 June 2023.

## 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 period<sup>iv</sup>
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.<sup>v</sup>

For the annual reviews, the WCR requires that we determine the regulated charges for the relevant year.<sup>vi</sup> 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"<sup>vii</sup>
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 have now completed 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 decisions apply to all charges for rural customers in the 9 MDB valleys and Fish River, including miscellaneous and metering charges.<sup>2</sup>

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.

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<sup>2</sup> Under the 2021 Determination, the Yanco Creek System entitlement charge and meter accuracy deposit will be held constant in nominal terms. Therefore, our decision on inflation will not affect this charge.

## 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.

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 considers WaterNSW's application for 2022-23 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.

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### 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.

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

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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 decided 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 5.1% from 1 July 2022.<sup>3</sup> 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 decided 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

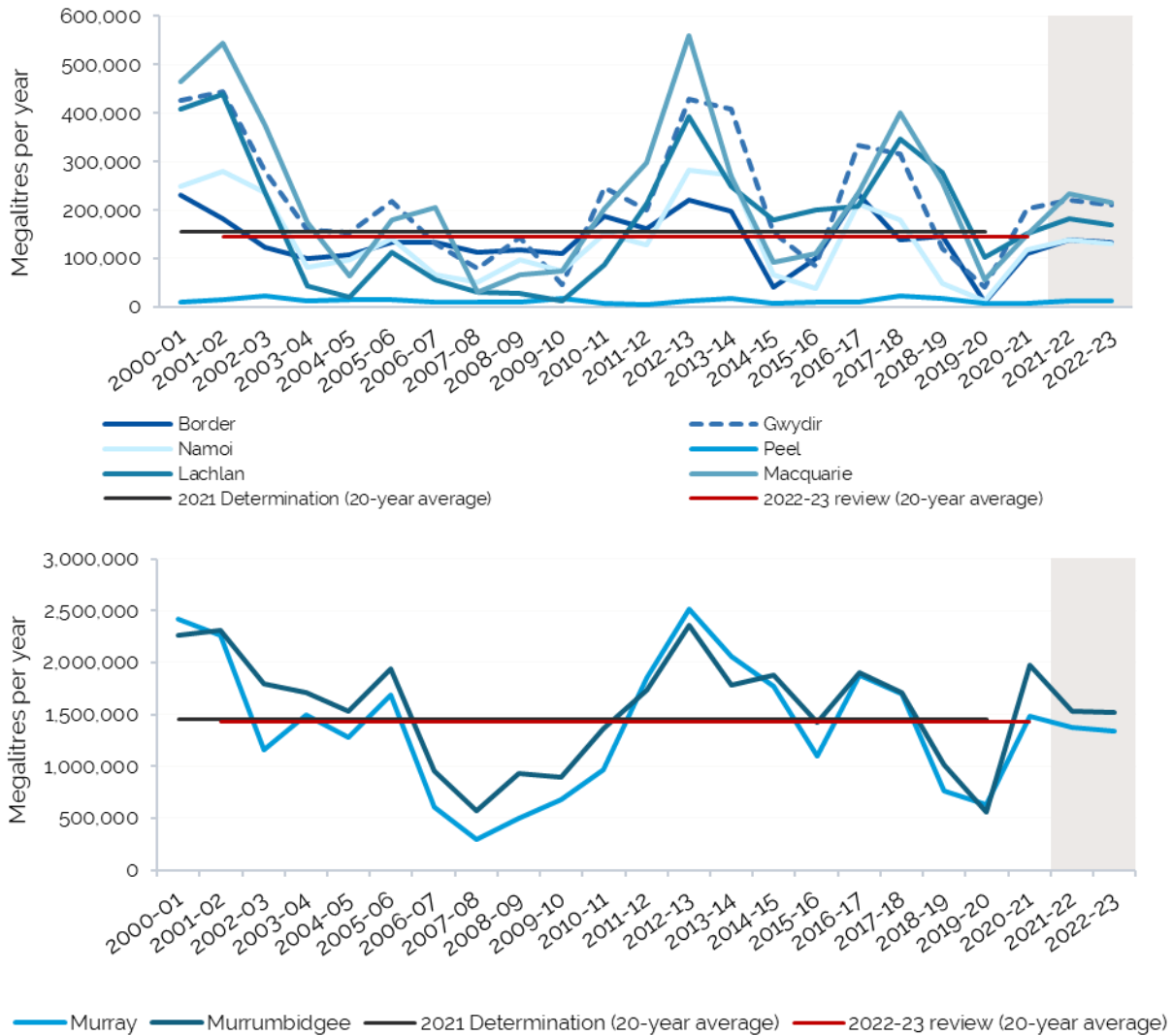
We focused our assessment on changes in water sales. This is because we found water entitlements or minimum annual quantity have been relatively consistent with the levels we used to set charges in 2021.

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.

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<sup>3</sup> The Yanco Creek System entitlement charge and meter accuracy deposit will not increase by CPI. As per the 2021 Determination, the Yanco Creek System entitlement charge will be held constant at \$0.90/ML in nominal terms.

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.

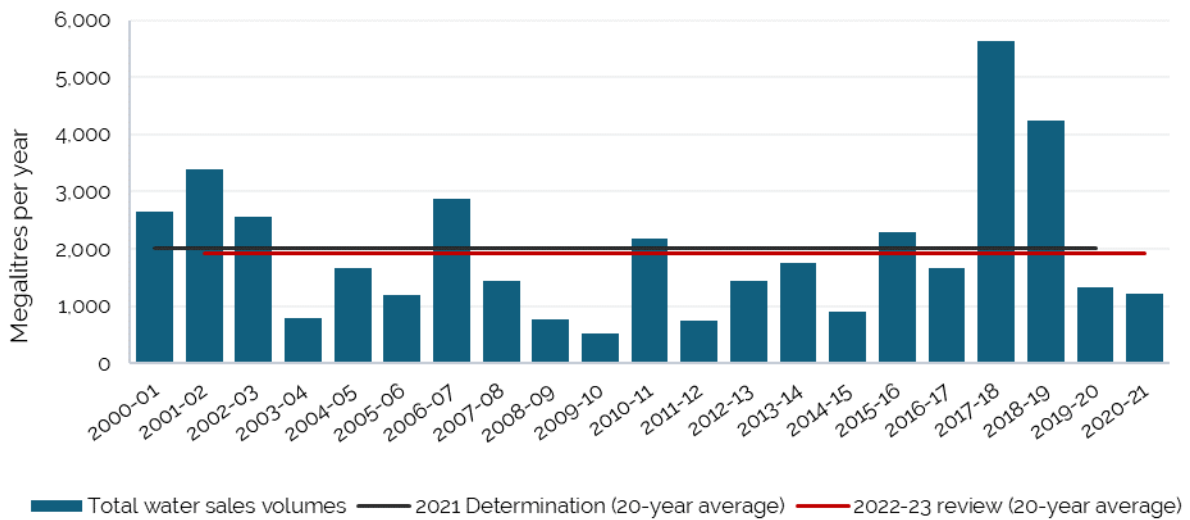
Source: 2021 Determination model with data provided by WaterNSW.

Based on the data provided by WaterNSW, we consider there is no evidence of a sustained shift in water sales. We consider this signals that it is too early to know whether recent changes in sales represent a sustained shift since the 2021 Determination.

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% capacity<sup>viii</sup> 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 has decreased by around 4% only (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 decided to maintain charges in line with the 2021 Determination. This will see most charges increase in line with inflation.

Our 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.<sup>ix</sup>

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. WaterNSW stated that it is looking forward to working with IPART to introduce potential flexible forms of price control at the next determination.<sup>x</sup>

## 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 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 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 will pay in 2022-23 based on our decision to maintain regulated charges as set under the 2021 Determination. These charges are shown in Table 1, Table 2 and Table 3. Our decision also applies to other charges in the 9 MDB valleys and Fish River, including miscellaneous and metering charges.

For the Final Report, we used an inflation rate of 5.1% to convert the charges to nominal dollars for the 2022-23 period. Appendix A provides a comparison of prices between 2021-22 and 2022-23.

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	6.92	2.53	7.39
Gwydir	18.29	4.25	18.07
Namoi	30.41	10.62	32.45
Peel	64.49	6.12	25.76
Lachlan	26.38	3.90	32.76
Macquarie	21.21	4.14	22.74
Murray	2.38	1.04	3.08
Murrumbidgee	4.38	1.50	5.22
Lowbidgee	0.0	1.81	0.00

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	5.09	1.86	0.90
Murray	9.08	3.99	1.94
Murrumbidgee	1.95	0.67	0.39

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	0.35	0.86
Raw water – minor customers	0.51	0.35	0.86
Filtered water – minor customers	0.90	0.56	1.46

Source: IPART, *Prices for rural bulk water services from 1 October 2021 – Determination*, September 2021, p 13, adjusted for inflation.

# Appendices

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## A Comparison of charges before and after inflation

The tables below provide WaterNSW's rural bulk water charges for 2021-22 and for 2022-23. The 2022-23 charges are equal to the 2021-22 charges indexed by CPI of 5.1%.

Table A.1 WaterNSW rural bulk water charges for 2021-22 and 2022-2023

Valley	2021-22 \$2021-22	2022-23 \$2022-23
<b>HS fixed charge (\$/ML)</b>		
Border	6.58	6.92
Gwydir	17.40	18.29
Namoi	28.93	30.41
Peel	61.36	64.49
Lachlan	25.10	26.38
Macquarie	20.18	21.21
Murray	2.26	2.38
Murrumbidgee	4.17	4.38
<b>GS fixed charge (\$/ML)</b>		
Border	2.41	2.53
Gwydir	4.04	4.25
Namoi	10.10	10.62
Peel	5.82	6.12
Lachlan	3.71	3.90
Macquarie	3.94	4.14
Murray	0.99	1.04
Murrumbidgee	1.43	1.50
Lowbidgee	1.72	1.81
<b>Usage charge (\$/ML)</b>		
Border	7.03	7.39
Gwydir	17.19	18.07
Namoi	30.88	32.45
Peel	24.51	25.76
Lachlan	31.17	32.76
Macquarie	21.64	22.74
Murray	2.93	3.08
Murrumbidgee	4.97	5.22

Source: IPART analysis.

Table A.2 MDBA and BRC rural bulk water charges for 2021-22 and 2022-2023

<b>Valley</b>	<b>2021-22 \$2021-22</b>	<b>2022-23 \$2022-23</b>
<b>HS fixed charge (\$/ML)</b>		
Border	4.84	5.09
Murray	8.64	9.08
Murrumbidgee	1.86	1.95
<b>GS fixed charge (\$/ML)</b>		
Border	1.77	1.86
Murray	3.80	3.99
Murrumbidgee	0.64	0.67
<b>Usage charge (\$/ML)</b>		
Border	0.86	0.90
Murray	1.85	1.94
Murrumbidgee	0.37	0.39

Source: IPART analysis.

Table A.3 Fish River rural bulk water charges for 2021-22 and 2022-2023

<b>Valley</b>	<b>2021-22 \$2021-22</b>	<b>2022-23 \$2022-23</b>
<b>Access (or MAQ) charge (\$/kL)</b>		
Raw water – major customers	0.49	0.51
Raw water – minor customers	0.49	0.51
Filtered water – minor customers	0.86	0.90
<b>Usage up to MAQ (\$/kL)</b>		
Raw water – major customers	0.33	0.35
Raw water – minor customers	0.33	0.35
Filtered water – minor customers	0.53	0.56
<b>Usage in excess of MAQ (\$/ML)</b>		
Raw water – major customers	0.82	0.86
Raw water – minor customers	0.82	0.86
Filtered water – minor customers	1.39	1.46

Source: IPART analysis.



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- <sup>i</sup> Inverell Shire Council submission to IPART Annual Review Report, May 2022, pp 1-2.
- <sup>ii</sup> Australian Bureau of Statistics, [CPI rose 2.1% in the March 2022 quarter](#), accessed on 27 May 2022.
- <sup>iii</sup> Reserve Bank of Australia, [Statement on Monetary Policy – May 2022](#), accessed on 27 May 2022.
- <sup>iv</sup> *Water Charge (Infrastructure) Rules 2010* Part 6 Division 2.
- <sup>v</sup> *Water Charge (Infrastructure) Rules 2010* Part 6 Division 3.
- <sup>vi</sup> *Water Charge (Infrastructure) Rules 2010* Rule 29.
- <sup>vii</sup> *Water Charge (Infrastructure) Rules 2010* Sub-rule 37(2).
- <sup>viii</sup> WaterNSW, [Regional NSW Storage Levels](#), accessed 12 April 2022.
- <sup>ix</sup> WaterNSW, [Application to IPART's 2022-23 Review of Regulated Charges](#), April 2022, p 2.
- <sup>x</sup> WaterNSW, [Application to IPART's 2022-23 Review of Regulated Charges](#), April 2022, p 2.