

Lachlan Valley

Issues Paper - WaterNSW's rural bulk water pricing proposal



In this Fact Sheet we highlight selected key information from WaterNSW's pricing proposal for customers in the **Lachlan valley**. This information is not exhaustive and should be read in conjunction with our General Overview Fact Sheet and Issues Paper.




Overview

- ▼ Forecast annual entitlement for 2016-17: General Security 633,256 ML; High Security 57,514 ML.
- ▼ Forecast annual usage for 2016-17: 205,079 ML (20 year rolling average).
- ▼ Proposed user share notional revenue requirement (NRR): \$28.8 million over 2017-18 to 2020-21 or \$7.2 million per year. The user share of NRR is the portion of total costs that are paid for by customers. This is used as the basis for WaterNSW setting its proposed prices.
- ▼ The proposed user share of NRR for the Lachlan valley represents around 9.9% of WaterNSW's proposed total user share of NRR across the state.
- ▼ Proposed average annual user share of NRR over the four year determination period is decreasing when compared to the three years of the current determination.
- ▼ Proposed volatility cost (ie, the costs of purchasing a risk transfer product) represents 11.6% of user share NRR of the Lachlan Valley over the determination period.

Under WaterNSW's proposal, bulk water charges in the valley are decreasing for high security entitlement holders and increasing for general security entitlement holders in real terms. The variable usage charge will decrease for all customers.

Consistent with WaterNSW's proposal, the **price** and **revenue** figures below are in **\$2016-17** (ie, they **exclude** the effects of inflation beyond 2016-17).

WaterNSW's proposed price changes (per ML, \$2016-17)

High Security		10.1%	\$16.48/ML (2016-17) \$14.80/ML (2020-21)
General Security		21.7%	\$3.28/ML (2016-17) \$3.99/ML (2020-21)
Variable usage		11.8%	\$21.12/ML (2016-17) \$18.63/ML (2020-21)

WaterNSW's proposed NRR for Lachlan valley (\$000s, \$2016-17)

	2017-18	2018-19	2019-20	2020-21	Total ^a	Average Proposed ^a	Average ACCC	Change ^b
Base building block	7,113	6,953	7,136	7,201	28,404	7,101	7,568	-6.2%
UOM ^c allowance	100	100	100	100	401	100	47	115.0%
BRC & MDBA costs	-	-	-	-	-	-	-	N/A
Total user share	7,213	7,053	7,236	7,301	28,804	7,201	7,614	-5.4%
Total NRR- Lachlan	11,104	10,926	11,083	11,110	44,223	11,056	11,815	-6.4%
Total user share (%)	65%	65%	65%	66%	65%	65%	64%	

^a Total and annual average over 2017-18 to 2020-21.

^b Annual average (2017-18 to 2020-21) compared with annual average (2014-15 to 2016-17).

^c Unders and Overs Mechanism (UOM).



WaterNSW's pricing proposal includes indicative customer bills, for a range of entitlement and usage volume scenarios, under its proposed fixed and usage charges.

Below we present two of these scenarios: a general security bill based on a customer holding a 1,000 ML entitlement and using 60% of the entitlement; and a high security bill based on a customer holding a 500 ML entitlement and using 100% of the entitlement held in a year.

The **bill impacts** presented below are in **nominal dollars** (ie, they **include** the effects of forecast inflation, assumed to be 2.5% per year, beyond 2016-17).

Under WaterNSW's proposed prices, typical bills would decrease for high security entitlement holders and increase for general security entitlement holders.

Indicative customer bill impacts of proposed prices (\$nominal)

		High Security (including inflation)		General Security (including inflation)
	1.8%	\$18,799 (2016-17) \$18,452 (2020-21)		5.0%
				\$15,955 (2016-17) \$16,746 (2020-21)

The Issues Paper contains a number of questions for stakeholder comment. The following questions may be particularly relevant to stakeholders in the Lachlan valley:

- ▼ Irrigation Corporations and Districts (ICDs) conduct activities that warrant rebates from charges in recognition of avoided costs. The rebates proposed by WaterNSW for the upcoming determination are around 50% less than the rebates determined by the ACCC for 2016-17. Are the levels of ICD rebates proposed by WaterNSW reasonable?
- ▼ WaterNSW has proposed to purchase a risk transfer product to manage its sales volume volatility and to pass on the costs of this purchase to customers. The proposed volatility cost is 11.6% of the user share of NRR of the Lachlan valley and which directly affects general security entitlement prices. Should users pay for the purchase of a risk transfer product?