

# Murray 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 **Murray 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 2,081,716 ML; High Security 261,883 ML.
- ▼ Forecast annual usage for 2016-17: 1,537,145 ML (20-year rolling average).
- ▼ Proposed user share notional revenue requirement (NRR): \$71.2 million over 2017-18 to 2020-21 or \$17.8 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 proposed prices.
- ▼ The proposed user share of NRR for the Murray valley represents around 24.4% 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 3 years of the current determination.
- ▼ On average, Murray Darling Basin Authority (MDBA) costs represent 69.3% of the total proposed annual user share NRR for Murray valley.
- ▼ Proposed volatility cost (ie, the costs of purchasing the risk transfer product) represents 2.3% of user share NRR for the Murray Valley over the determination period.

Under WaterNSW's proposal, final entitlement charges (ie, bulk water plus MDBA charges) would increase for high security entitlement holders and general security holders in real terms. The usage charge would decrease for all customers. WaterNSW has proposed a change in price structure for MDBA charges from the current 40:60 fixed to usage split to 100% fixed charge on entitlement.

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 prices, change over 2016-17 to 2020-21 (per ML, \$2016-17)

	Bulk water charges (excluding inflation)		MDBA charges (excluding inflation)		Final charges (excluding inflation)	
High Security	↓	15.1% (\$1.79 to \$1.52)	↑	105.4% (\$3.22 to \$6.61)	↑	62.4% (\$5.00 to \$8.13)
General Security	↑	0.7% (\$0.97 to \$0.98)	↑	162.4% (\$1.74 to \$4.58)	↑	104.7% (\$2.71 to \$5.55)
Usage	↓	14.9% (\$2.31 to \$1.97)	↓	100% (\$4.17 to \$0.00)	↓	69.6% (\$6.48 to \$1.97)

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

	2017-18	2018-19	2019-20	2020-21	Total <sup>a</sup>	Average Proposed <sup>a</sup>	Average ACCC	Change <sup>b</sup>
Base building block	5,395	5,428	5,442	5,403	21,668	5,417	9,613	-43.6%
UOM <sup>c</sup> allowance	39	39	39	39	158	39	12	237.1%
MDBA costs	15,187	11,710	11,261	11,261	49,419	12,355	10,646	16.0%
<b>Total user share</b>	<b>20,622</b>	<b>17,177</b>	<b>16,743</b>	<b>16,703</b>	<b>71,245</b>	<b>17,811</b>	<b>20,371</b>	<b>-12.1%</b>
Total NRR-Murray	21,519	18,072	17,631	17,582	74,805	18,701	20,584	-7.5%
<b>Total user share (%)</b>	<b>96%</b>	<b>95%</b>	<b>95%</b>	<b>95%</b>	<b>95%</b>	<b>95%</b>	<b>100%</b>	

<sup>a</sup> Total and annual average over 2017-18 to 2020-21.

<sup>b</sup> Annual average (2017-18 to 2020-21) compared with average annual (2014-15 to 2016-17).

<sup>c</sup> 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 final prices, typical bills (including MDBA costs) would decrease for high security entitlement holders and increase for general security entitlement holders.

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

	High Security (including inflation)		General Security (including inflation)	
	3.1%	\$5,745 (2016-17) \$5,565 (2020-21)		12.6%
				\$6,598 (2016-17) \$7,432 (2020-21)

**The Issues Paper contains a number of questions for stakeholder comment.** The following questions are particularly relevant to stakeholders in the Murray valley:

- ▼ WaterNSW has forecast a total MDBA user share of costs of about \$58.8 million over the four years to 2020-21. This represents an annual average increase of 13.3% compared with the previous three years. Is the proposed MDBA user share of costs efficient?
- ▼ WaterNSW has proposed to change the MDBA charge from a 40:60 fixed to usage split to a 100% fixed charge per ML. How should MDBA charges be structured?
- ▼ WaterNSW has proposed reducing the high security premium, which would shift costs towards general security users. Is this adjustment reasonable?
- ▼ 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?