

13 June 2017



## WHAT

IPART has reviewed the maximum prices that WaterNSW can charge for its rural bulk water services from 1 July 2017 until 30 June 2021. These services relate to storing and delivering water to entitlement holders in 12 valleys across NSW, and the Fish River Water Supply Scheme (FRWS).

We have released the Final Report and Determination. Individual Fact Sheets, highlighting key decisions for each valley, are available on [our website](#).



## WHY

We aim to set prices to allow WaterNSW to recover only the customer share of the efficient costs of its monopoly services.

Our Final Report sets out our decisions on the three broad categories of prices that we set in this review:

- ▼ **Bulk water charges** (annual entitlement and usage prices)
- ▼ **Murray-Darling Basin Authority (MDBA) and Dumaresq-Barwon Border Rivers Commission (BRC) charges** (annual entitlement and usage prices)
- ▼ **Miscellaneous charges** (for meter services and other miscellaneous activities).



## WHO

WaterNSW delivers bulk water to irrigators and other licence holders on regulated rivers across NSW. It operates 42 large dams and weirs, and delivery infrastructure, to deliver water to around 6,300 customers.



## HOW

Our Final Report sets out the process we have used and our key decisions in determining our prices. Key steps in this process include:

- ▼ Establishing the efficient costs (or 'Notional Revenue Requirement' – NRR) of WaterNSW's monopoly services and allocating it between customers and the NSW Government.
- ▼ Determining the structure of WaterNSW's maximum prices and setting them to recover the customer share of NRR for each valley.
- ▼ Evaluating the impact of prices on customers and other stakeholders.

**The impact of our key decisions is summarised below.**

## OUR KEY DECISIONS



### Bills are generally falling or increasing by less than inflation

Due to the general decrease in prices, most customer bills are expected to either fall, or increase at or below the rate of inflation. Our analysis of bill impacts indicates that from 2016-17 to 2020-21:

- ▼ High security (HS) customers should expect a bill decrease, or a small increase at (or below) the rate of inflation, except those in the Murray and Murrumbidgee valleys which would experience larger increases due to MDBA charges.
- ▼ General security (GS) customers should expect a bill decrease, or a small increase at or below the rate of inflation.



### We have changed some tariff structures

We have retained the existing fixed to variable tariff ratios (40:60) in most valleys, however we have varied this tariff structure for some:

- ▼ In the Peel valley an 80:20 tariff structure will apply from 1 July 2018 (the second year of the Determination).
- ▼ We have also moved to an 80:20 structure in the South Coast valley and FRWS and a 90:10 structure in the North Coast valley.
- ▼ We have also applied an 80:20 tariff structure to MDBA and BRC charges (rather than the current 40:60 ratio).



## Entitlement charges are falling for most valleys

Entitlement charges are levied per megalitre of licensed entitlement held (a fixed amount per megalitre of entitlement). We have set:

- ▼ **Bulk water entitlement charges** – customers in all valleys pay these charges, and under our decisions they will fall in most valleys. The key exceptions are the Peel, North Coast and South Coast valleys where we have adjusted tariff structures so that more of WaterNSW’s revenue is recovered through entitlement charges, and less through usage charges.
- ▼ **MDBA and BRC entitlement charges** – customers in Border (BRC), Murray and Murrumbidgee (MDBA) pay these charges in addition to their bulk water entitlement charges. These will rise mainly due to our decision to set MDBA and BRC tariffs on an 80:20 fixed to variable tariff structure.




## Usage charges are falling for most valleys

Usage charges are levied per megalitre of water extracted (a variable amount). We have set:

- ▼ **Bulk water usage charges** – customers in all valleys pay these charges.<sup>1</sup>
- ▼ **MDBA and BRC usage charges** – customers in Border, Murray and Murrumbidgee pay these charges in addition to their bulk water usage charges.

Usage charges are falling in all valleys. The largest reductions occur in valleys where tariff structures have changed which include Peel, North Coast and South Coast valleys. MDBA and BRC usage charges are also decreasing due to our decision to recover these costs on an 80:20 fixed to variable basis.



## WaterNSW’s efficient costs are falling

The biggest drivers of cost reductions are:

<sup>1</sup> Except for Lowbidgee valley where all costs are recovered through entitlement charges.

- ▼ WaterNSW’s savings in operating expenditure, and
- ▼ a lower return on capital.

We have set WaterNSW’s allowance for capital expenditure at \$152 million over the 2017 determination period. In doing so, we reduced WaterNSW’s proposed capital expenditure by around \$44 million (23%).



## MDBA charges are rising

MDBA pass-through charges are rising mainly as the NSW Government has resumed paying its historical share of the MDBA’s costs. BRC charges are decreasing marginally. We have applied a 1.25% per annum reduction (compounded) to MDBA and BRC charges which reduces total related payments passed through to users by around \$1.9 million over the 2017 determination period.



## New allowance to address revenue volatility

We have included a revenue volatility allowance of about \$1.3 million per year. This recognises that WaterNSW is subject to volatility risk in most valleys. This risk arises from the difference between WaterNSW’s largely fixed costs, and its tariff structures (40:60 fixed to variable in most valleys); relative to an 80:20 split which better aligns with WaterNSW’s cost structure.

The volatility allowance only applies to valleys that are at cost recovery, and where the proportion of forecast revenue raised through fixed charges is less than 80%.

We have also discontinued the unders and overs mechanism (UOM). We have adjusted prices to incorporate a UOM payback over a 12-year period. This means an increase in bills for some customers, until the UOM balance in each valley is returned to zero.



## LEARN MORE

Our determination, report, stakeholder submissions, public hearing transcripts, and consultants’ reports are available on our website ([www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au)).