

# WaterNSW review: Rural bulk water prices - general overview



13 September 2016



## WHAT

IPART is reviewing maximum prices that WaterNSW (formerly State Water) can charge for its rural bulk water services.

WaterNSW delivers bulk water to irrigators and other licence holders on regulated rivers across NSW. It operates 42 large dams and weirs and other delivery infrastructure in the State's rivers to provide water to its 6,300 customers.

Its area of operations is divided into 13 valleys. Separate information sheets for each valley are available on [our website](#).



## WHY

This review will set prices for WaterNSW's services to apply from 1 July 2017.

IPART's Issues Paper summarises and provides initial views on WaterNSW's Pricing Proposal. Key issues for the review are summarised on the next page.

The Issues Paper and WaterNSW's proposal are available on [our website](#).

We are seeking views from stakeholders.



## HOW

We will engage expert consultants to assist us to review WaterNSW's capital and operating expenditure proposals. We will then set prices to allow WaterNSW to recover only the efficient costs of its services from users.

WaterNSW proposes to continue to pass through costs of the Border Rivers Commission and the Murray-Darling Basin Authority to customers through its prices in three valleys. These costs will also be subject to review.

We will also make decisions on:

- ▼ length of time for which we set prices
- ▼ forecast water sales and entitlement volumes
- ▼ how to address the risks to WaterNSW associated with revenue volatility, and
- ▼ the structure of WaterNSW's prices.

In making our decisions, we will consider the impacts on WaterNSW, its customers and other stakeholders, along with other factors.



## WHEN

### Key dates for this price review

17 Oct 2016	Submissions due
31 Oct 2016	Public hearing: Moree
7 Nov 2016	Public hearing: Sydney
14 Nov 2016	Public hearing: Coleambally
7 Mar 2017	Draft Report and Draft Determination released
4 Apr 2017	Public hearing: Sydney
10 Apr 2017	Submissions to Draft Report and Draft Determination due
6 Jun 2017	Final Report and Determination released
1 July 2017	New prices apply



## WHAT NEXT

Submissions are due by 17 October 2016.

We prefer submissions via our online [form](#). You can also send comments by fax to (02) 9290 2061, or by mail to:

**Price review for WaterNSW (Rural)**  
IPART  
PO Box K35  
Haymarket Post Shop NSW 1240

Unless they are identified as confidential, we plan to put all submissions on our website soon after the closing date for submissions.

# WaterNSW review: Rural bulk water prices



## Have your say

The following table lists some key issues we have identified for this review and provides a brief summary of WaterNSW's proposal and our initial position. We are interested in stakeholder views on these issues, and on the full list of questions in the Issues Paper.

Key issue	Summary of current position
WaterNSW's proposed capital expenditure	<p><b>WaterNSW</b> underspent its allowance for the user share of its capital expenditure by 3.3% (around \$1.9 million) over the four years to 2016-17. Over the next four years, WaterNSW has proposed an average annual user share of capital expenditure of around \$37.2 million. For the three years to 2016-17, the user share allowed averaged around \$15.7 million.</p> <p><b>IPART</b> will engage an expert consultant to review the prudence and efficiency of WaterNSW's forecast capital expenditure.</p>
Costs relating to Border Rivers Commission (BRC) and Murray-Darling Basin Authority (MDBA)	<p><b>WaterNSW</b> has incorporated BRC and MDBA costs in its proposed prices for the Border, Murray and Murrumbidgee valleys.</p> <p><b>IPART</b> will review the efficiency of these costs. During this review, the NSW Government may direct WaterNSW to fund these costs, which would constitute a regulatory obligation. If this occurs, we would set prices to allow WaterNSW to comply with this obligation (ie, we would allow WaterNSW to pass these costs onto users via prices in the three valleys). We will also examine WaterNSW's proposal to recover these costs through a fixed charge per ML of entitlement, as opposed to a 40:60 split between fixed and usage charges.</p>
Cost allowance to manage revenue volatility	<p><b>WaterNSW</b> has proposed purchasing a risk transfer product (RTP) to manage its risks associated with revenue volatility, while maintaining a 40:60 split between fixed and usage charges. This RTP would replicate an 80:20 fixed to usage price structure, so that only 20% of WaterNSW's revenue would be tied to water sales. WaterNSW estimated the annual costs of this would represent around an extra 5% per year on the user share of its revenue requirement. It has proposed including this cost in prices for general security entitlement holders.</p> <p><b>IPART</b> has not formed a view on WaterNSW's proposal to recover its costs of the RTP from water users via prices. However, we will consider whether the proposed approach to risk is appropriate and how it could be best managed.</p>
Allocating costs between water users and the NSW Government	<p><b>WaterNSW</b> has proposed continuing to recover the majority (70%) of its costs from users. Costs are currently allocated to water users or the Government based on the 'impactor pays' principle. This principle seeks to allocate costs to different individuals or groups in proportion to their contribution to creating the costs (or the need to incur the costs).</p> <p><b>IPART</b> will review cost shares to ensure they continue to reflect the share of costs imposed by each party.</p>
Allocating shared or common costs between WaterNSW's business areas	<p><b>WaterNSW</b> supplies bulk water to rural customers (the subject of this review), and Greater Sydney customers including Sydney Water (the subject of a separate review completed by IPART in June 2016). WaterNSW must allocate common costs (such as corporate costs) between these parts of its business in proposing its revenue requirement and prices. It proposes splitting these costs at 55% to Greater Sydney and 45% to rural valleys.</p> <p><b>IPART's</b> expenditure consultant will review the allocation of common costs.</p>
Alternative approaches to cost recovery	<p><b>WaterNSW's</b> proposed prices in the North Coast and South Coast valleys would recover 12% and 44% of their user share of costs, respectively, by 2021.</p> <p><b>IPART</b> will examine alternative approaches for setting prices in valleys where full cost recovery is unlikely to be achieved.</p>