



WHAT

IPART has released its Final Report and Determination for WaterNSW's prices for its bulk water operations in the Greater Sydney area. These services were previously provided by the Sydney Catchment Authority (SCA).¹

Sydney Water accounts for about 99% of WaterNSW's bulk water sales and revenue. Other customers include 3 councils and around 60 smaller raw and unfiltered water customers.

We have set bulk water prices for WaterNSW for four years from 1 July 2016 (the 2016 determination period).

All prices presented in this Fact Sheet are in \$2015-16 (excluding inflation).

Our decisions have resulted in:

- ▼ Lower prices for Sydney Water than in 2015-16 and lower than those proposed by WaterNSW.
- ▼ A downward impact on the bills of Sydney Water's customers over the 2016 determination period.
- ▼ Lower bulk water bills for WaterNSW's council customers.
- ▼ Unchanged prices for small raw water and unfiltered water customers (excluding inflation).



WHY

We have reduced WaterNSW's forecast revenue sales

- ▼ We reduced WaterNSW's notional revenue requirement (NRR) from \$849.6 million over the 2012 determination period to \$806.2 million over the upcoming 4-year period.

- ▼ WaterNSW's lower NRR is largely driven by:
 - Operating efficiency savings resulting from the merger of State Water and SCA and our reduction to operating expenditure (\$21.3 million).
 - A lower return on assets (\$34.2 million), as the weighted average cost of capital (WACC) has fallen from 5.6% (in our 2012-16 determination) to 4.9%.

We did not accept all of WaterNSW's proposed capital expenditure:

- ▼ Relative to its original proposal, we reduced WaterNSW's allowed capital expenditure over the 2016 determination period by \$139.9 million, or 37.5%.
- ▼ A large part of this reduction was identified by WaterNSW during the price review. WaterNSW reduced its original proposal for capital expenditure on the Shoalhaven Transfers project over the 2016 determination period from \$131.1 million to \$24.3 million.
- ▼ The forecast capital expenditure over the 2016 determination period (\$233.1 million) is still significantly higher than the actual capital expenditure over the 2012 determination period (\$93.7 million). The effect of this on prices, however, has been more than offset by a lower WACC and reduced operating expenditure (mentioned above).

We changed some price structures:

- ▼ We have maintained the structure of WaterNSW's prices to Sydney Water, so that 80% of its revenue is derived from its fixed charge and 20% from its volumetric (or usage) charge (ie, an 80:20 fixed to volumetric split).

¹ In 2015, the Sydney Catchment Authority and State Water merged to form WaterNSW.

- ▼ We have changed the structure of WaterNSW's prices to its three council customers, from a 25:75 to an 80:20 fixed to volumetric split.

We have made a number of other decisions relating to pricing:

- ▼ We have introduced a mechanism to pass through WaterNSW's costs of bulk water transfers from the Shoalhaven to Sydney Water, if these transfers occur.
- ▼ We have enabled WaterNSW and Sydney Water to employ a water quality incentive scheme.
- ▼ We intend to implement an efficiency carryover mechanism at WaterNSW's 2020 price review.



WHEN

The new prices will take effect from 1 July 2016.



LEARN MORE

Our reports, stakeholder submissions, the transcript from the public hearing, and our consultant's report are available on our website (www.ipart.nsw.gov.au).

The Final Report can be accessed [here](#).

The Determination can be accessed [here](#).

1 Prices for Sydney Water



Sydney Water accounts for about 99% of WaterNSW’s bulk water sales and revenue. WaterNSW recovers revenue from Sydney Water using an 80:20 split between its fixed and volumetric (or usage) charges to Sydney Water.

We have updated the current “SDP on” and “SDP off” pricing approach to calculating WaterNSW’s volumetric charge to Sydney Water using an equation. This will reflect all possible modes of operation of the Sydney Desalination Plant (SDP). This means that WaterNSW will receive the revenue to cover its costs even if its water sales are lower when the SDP is supplying water to Sydney Water.

Our decision on prices is shown in Table 1. The volumetric prices shown are based on an assumption that water supplied by SDP is zero. Under any scenario, forecast revenue from Sydney Water is, on average, \$198.4 million per year.

Table 1 Maximum prices to Sydney Water (\$2015-16) – excluding inflation

	2015-16 (Current)	2016-17	2017-18	2018-19	2019-20
Fixed charge (\$millions/year)	170.05	154.98	157.06	160.66	162.34
Volumetric charge (\$/ML) - SDP volume zero	85.81	72.81	72.79	73.84	73.77

2 Prices for Council customers



We have accepted WaterNSW’s proposal to recover revenue from its three council customers based on an 80:20 split between its fixed and volumetric charges to the Councils (previously 25:75).

Our prices to the Councils are higher than those proposed by WaterNSW, but still result in lower bulk water costs for the Councils when compared to current prices, given forecast usage volumes.

WaterNSW’s bulk water revenue from the Councils for 2015-16 is estimated at \$1.39 million per year. Under our 2016 price determination, WaterNSW’s bulk water revenue from the Councils is forecast to be \$1.35 million a year over 2016-17 to 2019-20 (see Table 2).

Table 2 Bulk water costs under current prices compared to bulk water costs under our 2016 determination (\$2015-16) – excluding inflation

Council	2015-16 (current)	2016-17	2017-18	2018-19	2019-20
Goulburn Mulwaree	44,964	29,077	29,077	29,077	29,077
Shoalhaven City	26,661	24,231	24,231	24,231	24,231
Wingecarribee Shire	1,315,050	1,292,299	1,292,299	1,292,299	1,292,299
Total	1,386,676	1,345,607	1,345,607	1,345,607	1,345,607

Our decision on WaterNSW's prices to the Councils is shown below in Table 3.

Table 3 Maximum prices to the Councils (\$2015-16) – excluding inflation

	2015-16 (current)	2016-17	2017-18	2018-19	2019-20
Fixed Charge (\$/year)					
Goulburn Mulwaree Council	21,617	23,261	23,261	23,261	23,261
Shoalhaven City Council	7,206	19,384	19,384	19,384	19,384
Wingecarribee Shire Council	277,419	1,033,840	1,033,840	1,033,840	1,033,840
Volumetric Charge (\$/ML)					
All council customers	216.17	53.85	53.85	53.85	53.85

3 Prices for Raw and Unfiltered Water Customers



We have accepted WaterNSW's proposal to maintain current prices for its small raw water and unfiltered water customers in real terms (excluding inflation) over the 2016 determination period. WaterNSW's revenue from its small raw and unfiltered water customers is around \$0.3 million per year.

Our decision on prices for raw and unfiltered water customers is shown below in Table 4.

Table 4 Maximum prices to raw and unfiltered customers (\$2015-16) – excluding inflation

	2015-16 (Current)	2016-17	2017-18	2018-19	2019-20
Raw water customers					
Fixed charge to raw water customers (\$/year)	0	0	0	0	0
Volumetric charge to raw water customers (\$/ML)	680	680	680	680	680
Unfiltered water customers					
Fixed charge to unfiltered water customers - for 20 mm meter (\$/year)	104	104	104	104	104
Volumetric charge to unfiltered water customers (c/kL)	118	118	118	118	118

Note: The fixed charge for unfiltered water is for customers with 20 mm meters. Customers with larger meters will face proportionately higher charges based on the relative size of their meter.