

NSW Bulk Water Pricing Facts 2

Review of Bulk Water prices in NSW 2006

From 1 October 2006

Facts on Bulk Water Pricing from 1 October 2006

On 12 September 2006, IPART released its determination on Bulk Water prices for the period from 1 October 2006. This fact sheet provides a short summary of IPART's determination. The full report and determination are available on IPART's website.

Overview

IPART has made a determination on Bulk Water Prices to apply from 1 October 2006. This covers bulk water services provided by State Water Corporation and the Department of Natural Resources.

In terms of customer impacts, IPART's analysis shows that its determination will mean that:

- ▼ for regulated rivers, the maximum increase in average bills is 15 per cent per annum. Some irrigators will experience greater increases (depending on the location, level of security and usage).
- ▼ for unregulated rivers and groundwater sources, the maximum increase in average bills is 15 per cent. Some irrigators will experience greater increases (due to changes in charging structures). IPART has imposed a limit of 20 per cent per annum on these increases.

The exact impact on any one customer's bill will depend on the customer's extraction rate relative to the valley average, and on the extent to which the customer responds to the price signals provided through the increased reliance on usage charges.

The impact on customers' bills varies between valleys because of existing differences between the proportion of revenue collected by the fixed charge versus the variable usage charge, because of differences in valley extraction rates, and because of differences in the cost of service delivery between valleys.

In making its determination for State Water and the Department, IPART was strongly influenced by four significant issues that affect the regulation and prices of bulk water services in NSW. These issues include:

- ▼ The continuing focus on cost reflective pricing, as a result of the NSW Government's commitments under the National Water Initiative (NWI).
- ▼ The significant increase in some State Water and DNR cost components since IPART's last major review in 2001. The agencies' operating costs have increased as a result of new activities, including those required under the newly established water sharing plans. In addition, State Water's share of costs for the Murray-Darling Basin Commission are higher than allowed for in the 2001 determination.
- ▼ The corporatisation of, and activities undertaken by, State Water, which have necessitated changes in the approach used to set prices and the level of costs. These changes were needed to ensure consistency with State Water's new business model, which requires a stronger emphasis on commercial decision-making, service delivery and appropriate risk management.
- ▼ Changes to State Water's Operating Licence, which mean that it is required to generate a greater proportion of its revenue from usage charges from 1 July 2006. This requirement has driven significant changes in the structure of bulk water prices.

Together, these issues have driven the IPART's decisions to make step changes to the structure of bulk water prices in some valleys and to the level of prices in many valleys. Such changes are essential to send appropriate signals to customers and stakeholders.

IPART's determination continues to move prices towards cost reflective levels, in accordance with agreed COAG objectives and taking into account the impact on customers. It also restructures prices to meet the requirements of State Water's Operating Licence, and NSW's obligation under the NWI to demonstrate that substantial application of consumption based pricing in rural water service has been achieved.

IPART has considered the impact of its pricing decisions on bulk water users, the agencies and the general community. It believes these decisions achieve a reasonable balance between the varied interests of these different stakeholders. In particular, its analysis suggests that the decisions will not have a significant financial impact on customers, while helping to ensure the long-term financial viability of bulk water services and containing the need for increased government funding of these service.

IPART has also considered the impacts of its pricing decision on the environment. The determination explicitly takes account of activities required to address water resource management issues to comply with instruments such as the Water Management Act 2000 (including the water sharing plans) and the NWI. IPART has also decided to restructure prices on the State Water component of the charge to achieve the fixed to variable price ratios required under State Water's Operating Licence. This will provide an incentive for users to conserve water, as they will pay a higher price for a megalitre of water extracted.

The indicative bills for irrigators resulting from this determination are shown in the tables attached. The prices for the different bulk water services can be obtained from the full report and determination which are available on IPART's website.

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Chief Executive Officer and Full Time Member

Appendix 1 – Indicative bills for bulk water customers from 1 October 2006

REGULATED RIVERS

**Table 1 Example bills for High Security customers on regulated rivers for
1,000ML entitlement and 100% allocation (\$ Real 2006/07)**

| Region/river valley | 2005/06 | 2006/07 | Total bill | | | Total real increase |
|---------------------|---------|---------|------------|---------|---------|---------------------|
| | | | 2007/08 | 2008/09 | 2009/10 | |
| Border | 11,449 | 10,805 | 11,463 | 12,070 | 12,629 | 10% |
| Gwydir | 10,328 | 10,953 | 12,463 | 13,867 | 15,170 | 47% |
| Namoi | 19,803 | 18,723 | 19,986 | 21,151 | 22,224 | 12% |
| Peel | 25,864 | 27,800 | 30,986 | 33,944 | 36,683 | 42% |
| Lachlan | 13,223 | 14,010 | 15,462 | 16,809 | 18,056 | 37% |
| Macquarie | 9,600 | 10,922 | 12,359 | 13,707 | 14,968 | 56% |
| Far West | - | - | - | - | - | |
| Murray | 7,490 | 7,459 | 7,552 | 7,632 | 7,700 | 3% |
| Murrumbidgee | 5,526 | 5,797 | 6,095 | 6,369 | 6,620 | 20% |
| North Coast | 19,813 | 23,489 | 27,450 | 31,217 | 34,808 | 76% |
| Hunter | 17,524 | 18,801 | 23,387 | 27,662 | 31,643 | 81% |
| South Coast | 19,810 | 24,008 | 28,457 | 32,679 | 36,695 | 85% |

Note: Entitlements vary significantly in size both within and between valleys. This table calculates the bill for an entitlement volume of 1,000ML for comparability between valleys. High security customers are assumed to use their full entitlement volume.

Table 2 Example bills for General Security customers on regulated rivers for 1,000ML entitlement and 60% allocation (\$ Real 2006/07)

| Region/river valley | 2005/06 | 2006/07 | Total bill | | | Total real increase |
|---------------------|---------|---------|------------|---------|---------|---------------------|
| | | | 2007/08 | 2008/09 | 2009/10 | |
| Border | 7,319 | 7,399 | 7,905 | 8,372 | 8,804 | 20% |
| Gwydir | 6,571 | 6,987 | 7,754 | 8,465 | 9,125 | 39% |
| Namoi | 12,620 | 12,542 | 13,592 | 14,564 | 15,462 | 23% |
| Peel | 13,195 | 14,411 | 15,606 | 16,712 | 17,734 | 34% |
| Lachlan | 8,424 | 8,707 | 9,163 | 9,582 | 9,966 | 18% |
| Macquarie | 6,555 | 7,218 | 7,841 | 8,427 | 8,978 | 37% |
| Far West | - | - | - | - | - | |
| Murray | 6,339 | 6,149 | 5,966 | 5,789 | 5,619 | -11% |
| Murrumbidgee | 4,857 | 4,732 | 4,611 | 4,493 | 4,378 | -10% |
| North Coast | 14,097 | 16,463 | 18,724 | 20,893 | 22,982 | 63% |
| Hunter | 11,683 | 10,943 | 12,234 | 13,433 | 14,545 | 24% |
| South Coast | 14,095 | 16,461 | 18,722 | 20,891 | 22,979 | 63% |

Note: Entitlements vary significantly in size both within and between valleys. This table calculates the bill for an entitlement volume of 1000 ML and a usage volume of 600ML for comparability between valleys

Table 3 Example bills for General Security customers on regulated rivers for 1,000ML entitlement and 20% allocation (\$ Real 2006/07)

| Region/river valley | 2005/06 | 2006/07 | Total bill | | | Total real increase |
|---------------------|---------|---------|------------|---------|---------|---------------------|
| | | | 2007/08 | 2008/09 | 2009/10 | |
| Border | 5,315 | 5,222 | 5,448 | 5,655 | 5,845 | 10% |
| Gwydir | 4,767 | 4,774 | 5,053 | 5,311 | 5,548 | 16% |
| Namoi | 9,104 | 8,836 | 9,395 | 9,912 | 10,387 | 14% |
| Peel | 8,604 | 8,318 | 8,086 | 7,863 | 7,647 | -11% |
| Lachlan | 6,136 | 5,896 | 5,810 | 5,724 | 5,639 | -8% |
| Macquarie | 4,600 | 4,826 | 5,040 | 5,242 | 5,433 | 18% |
| Far West | - | - | - | - | - | |
| Murray | 5,749 | 5,285 | 4,845 | 4,429 | 4,035 | -30% |
| Murrumbidgee | 4,417 | 4,032 | 3,668 | 3,323 | 2,997 | -32% |
| North Coast | 11,412 | 11,554 | 11,725 | 11,928 | 12,170 | 7% |
| Hunter | 8,770 | 7,866 | 8,509 | 9,105 | 9,655 | 10% |
| South Coast | 11,410 | 11,842 | 12,284 | 12,741 | 13,219 | 16% |

Note: Entitlements vary significantly in size both within and between valleys. This table calculates the bill for an entitlement volume of 1,000ML and a usage volume of 200ML for comparability between valleys.

UNREGULATED RIVERS

Table 4 Example bills for irrigators on unregulated rivers, 50 ha licences converted at valley average and on an entitlement only charge (Real 2006/07\$)

| Region/river valley | 2005/06 | 2006/07 | Total bill | | | Total real increase |
|---------------------|---------|---------|------------|---------|---------|---------------------|
| | | | 2007/08 | 2008/09 | 2009/10 | |
| Barwon | 633 | 515 | 515 | 515 | 515 | -19% |
| Central West | 701 | 724 | 749 | 774 | 800 | 14% |
| Far West | 701 | 806 | 927 | 1,066 | 1,226 | 75% |
| Murray | 399 | 459 | 527 | 607 | 698 | 75% |
| Murrumbidgee | 701 | 590 | 590 | 590 | 590 | -16% |
| North Coast | 701 | 806 | 927 | 1,066 | 1,226 | 75% |
| Hunter | 607 | 666 | 730 | 801 | 879 | 45% |
| South Coast | 701 | 715 | 730 | 745 | 760 | 9% |

GROUNDWATER

Table 5 Example groundwater bills for 200ML entitlement and usage in managed areas of 50% of entitlement (Real 2006/07\$)

| Region/river valley | 2005/06 | 2006/07 | Total bill | | | Total real increase |
|---------------------|---------|---------|------------|---------|---------|---------------------|
| | | | 2007/08 | 2008/09 | 2009/10 | |
| Managed | | | | | | |
| Barwon | 415 | 440 | 477 | 518 | 560 | 35% |
| Central West | 550 | 583 | 624 | 664 | 698 | 27% |
| Far West | 583 | 661 | 768 | 892 | 1,031 | 77% |
| Murray | 546 | 562 | 581 | 593 | 596 | 9% |
| Murrumbidgee | 411 | 389 | 363 | 327 | 280 | -32% |
| Unmanaged | | | | | | |
| Barwon | 261 | 294 | 339 | 391 | 448 | 72% |
| Central West | 367 | 407 | 455 | 505 | 555 | 51% |
| Far West | 395 | 471 | 566 | 679 | 820 | 107% |
| Murray | 365 | 392 | 422 | 451 | 476 | 30% |
| Murrumbidgee | 258 | 254 | 249 | 239 | 224 | -13% |
| North Coast | 395 | 471 | 566 | 679 | 820 | 107% |
| Hunter | 395 | 471 | 566 | 679 | 820 | 107% |
| South Coast | 395 | 471 | 566 | 679 | 820 | 107% |