

# Review of prices for WaterNSW rural bulk water services

Public Hearing – Southern NSW (Coleambally)

# Key dates

June 2016	Receive WaterNSW's pricing proposal
September 2016	Release Issues Paper
October 2016	Receive submissions on Issues Paper
October/November 2016	Public hearings in Moree, Sydney & Coleambally
March 2017	Release Draft Report & Determination
April 2017	Receive submissions on Draft Report & Determination
April 2017	Public hearing in Sydney
June 2017	Release Final Report & Determination

# Agenda

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## ▼ **Session 1:**

- ▼ Introduction
- ▼ WaterNSW's expenditure including proposed user cost shares

## ▼ **Session 2: Price structures & managing volatility**

## ▼ **Session 3:**

- ▼ MDBA costs
- ▼ ICD discounts

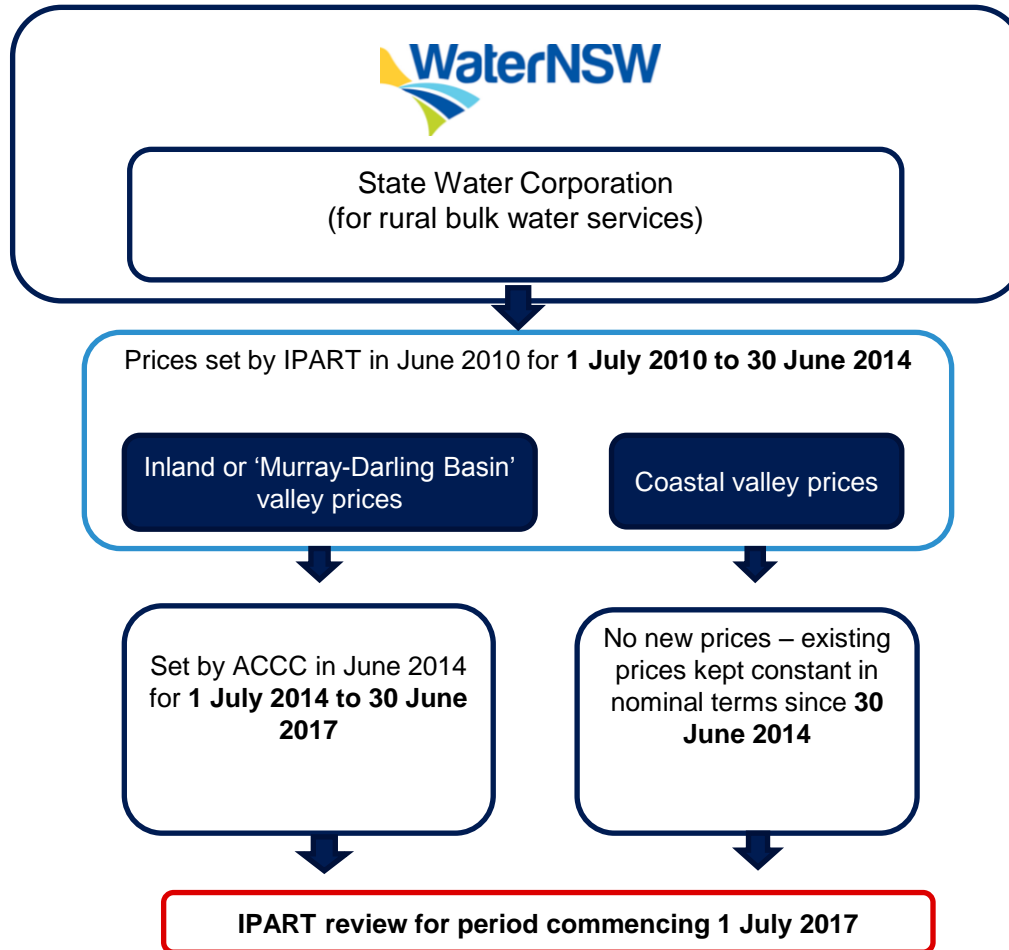
## ▼ **Session 4: Other issues**

- ▼ Eg, meter service & miscellaneous charges, cost recovery

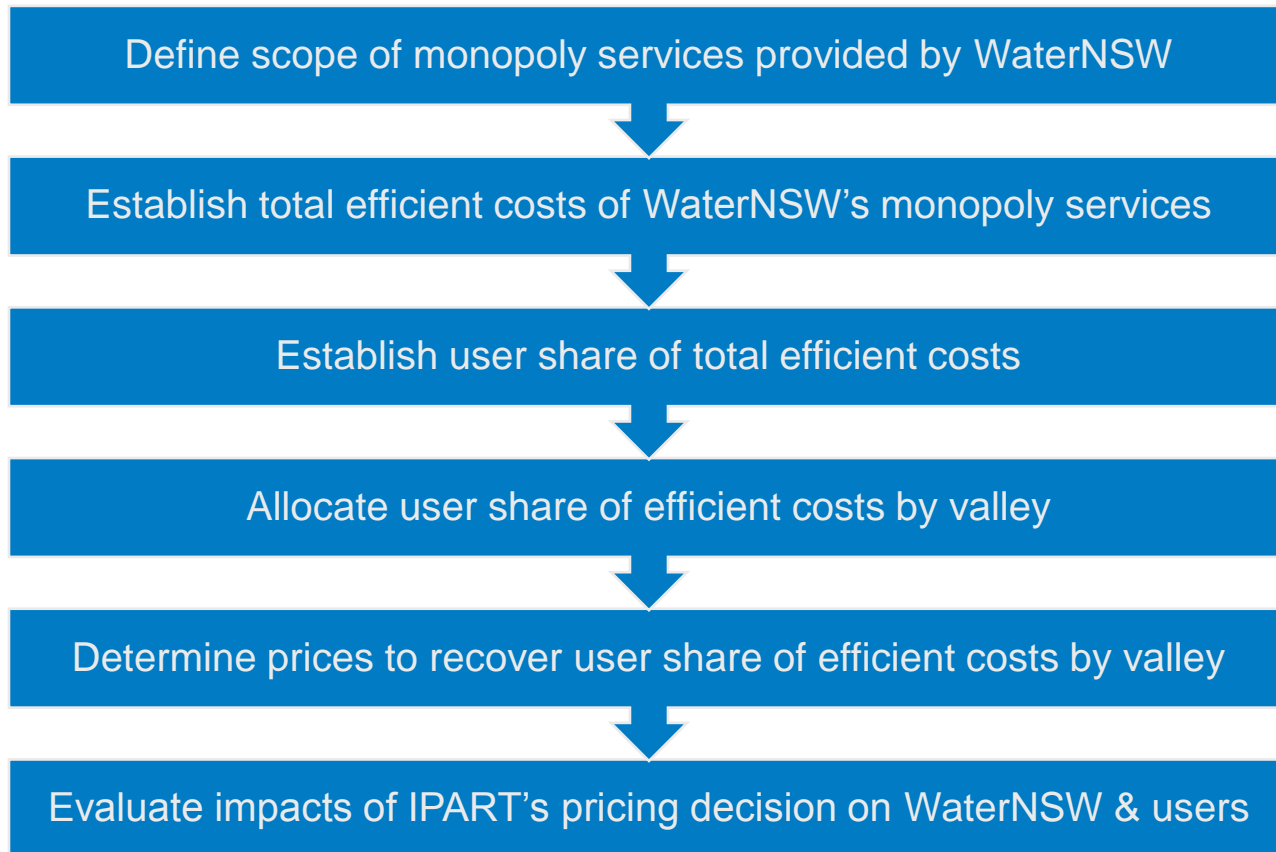
# WaterNSW's prices set by IPART

- ▼ IPART regulates WaterNSW's prices for rural bulk water services in 13 valleys across NSW
  - ▼ Murray-Darling Basin valleys
  - ▼ Coastal valleys
- ▼ We also regulate WaterNSW's:
  - ▼ Meter servicing charges
  - ▼ Other 'miscellaneous' charges set on fee-for-service basis

# Price review framework

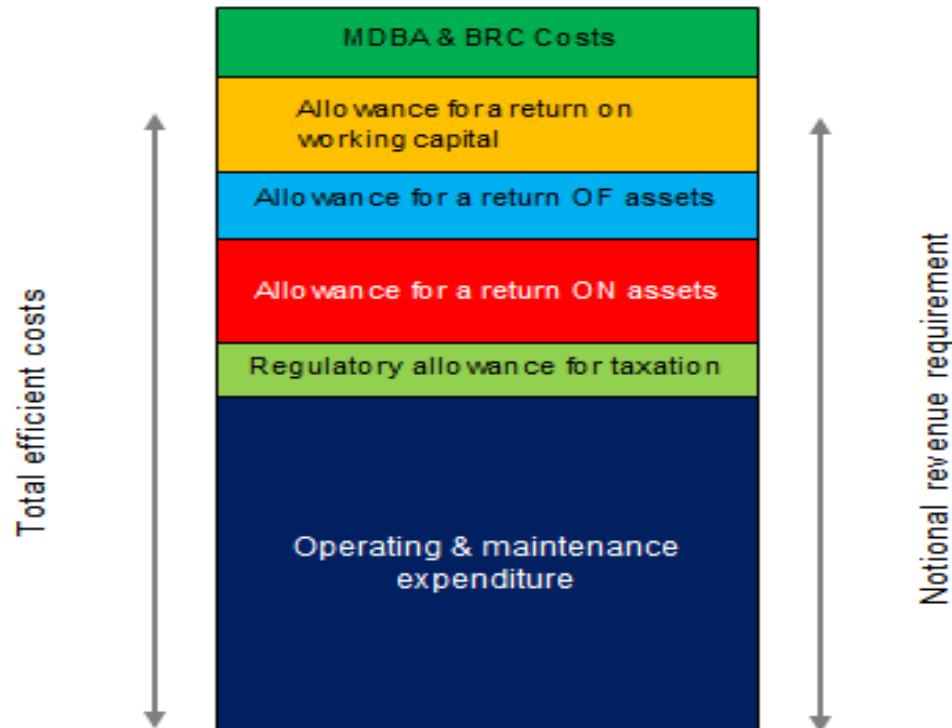


# IPART approach to setting prices



# Notional Revenue Requirement (NRR)

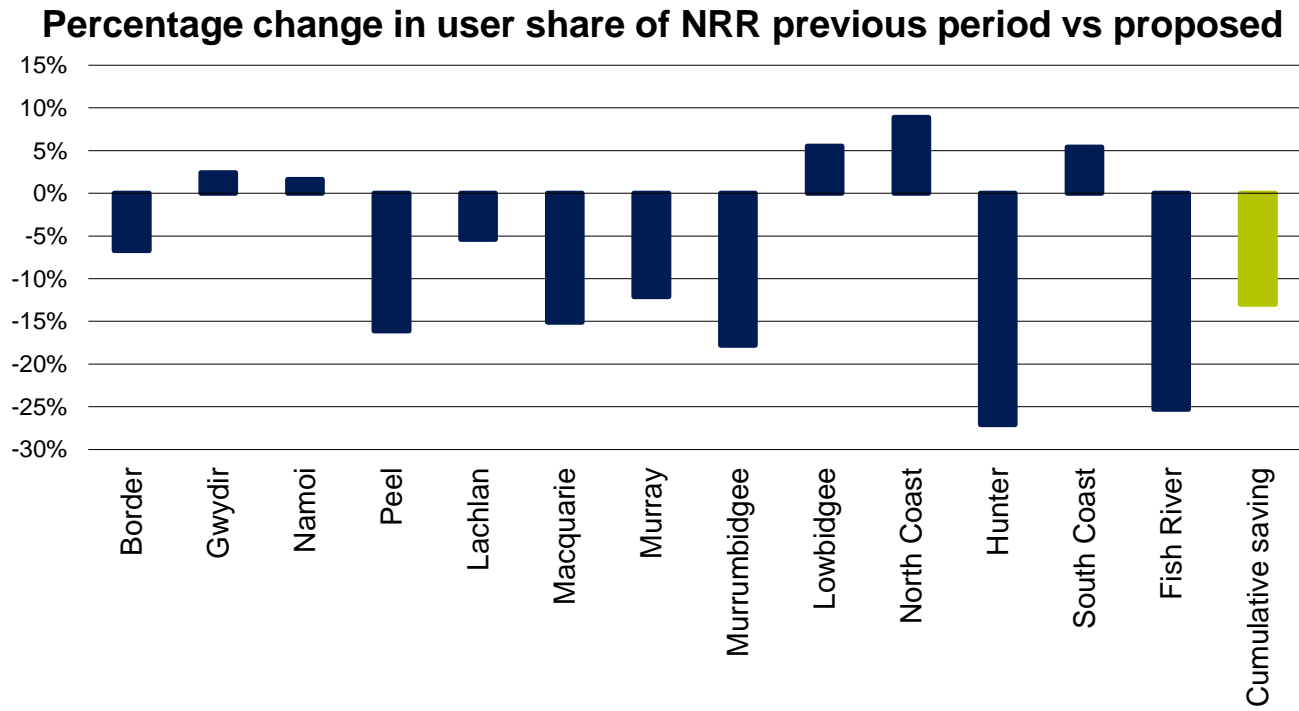
- ▼ We set prices to allow WaterNSW to recover user share of its NRR



**Notes:** Block sizes are not to scale. MDBA & BRC costs only apply to Border, Murray & Murrumbidgee valleys.

# NRR proposed by WaterNSW (2017-18 to 2020-21)

- ▼ **Average NRR decreasing**
  - ~\$105m total revenue requirement per year
- ▼ **Average user share decreasing**
  - \$73m user share of revenue requirement per year



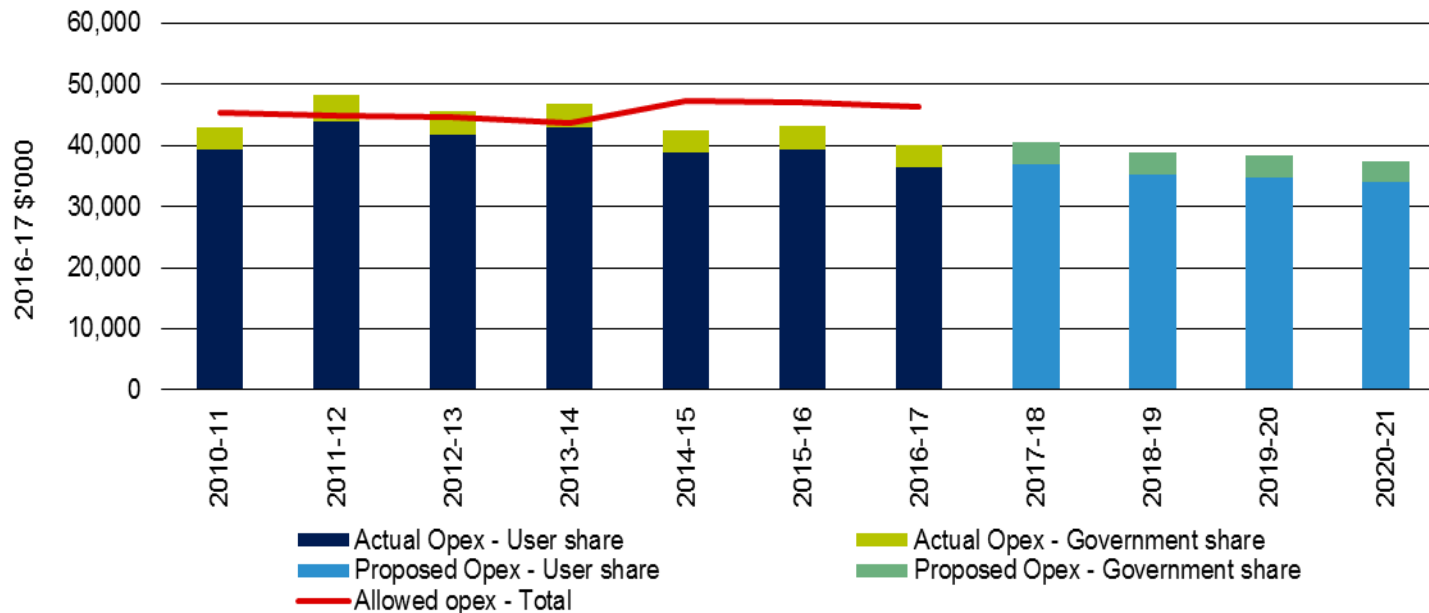


# WaterNSW's prices

- ▼ WaterNSW's prices for each valley are determined by a number of factors including:
  - ▼ User share of its NRR
  - ▼ Forecast volume of water take & entitlements within a valley
    - For a given cost (ie, user share of NRR):
      - Lower forecast water take or entitlement volumes*
      - *Higher water take or entitlement charges*

# WaterNSW's operating expenditure

- ▼ Actual annual operating costs declined between 2010-11 & 2016-17
  - ▼ Total Opex by ~\$3m/year (6.8%)
  - ▼ User share of Opex by ~\$3m/year (7.5%)

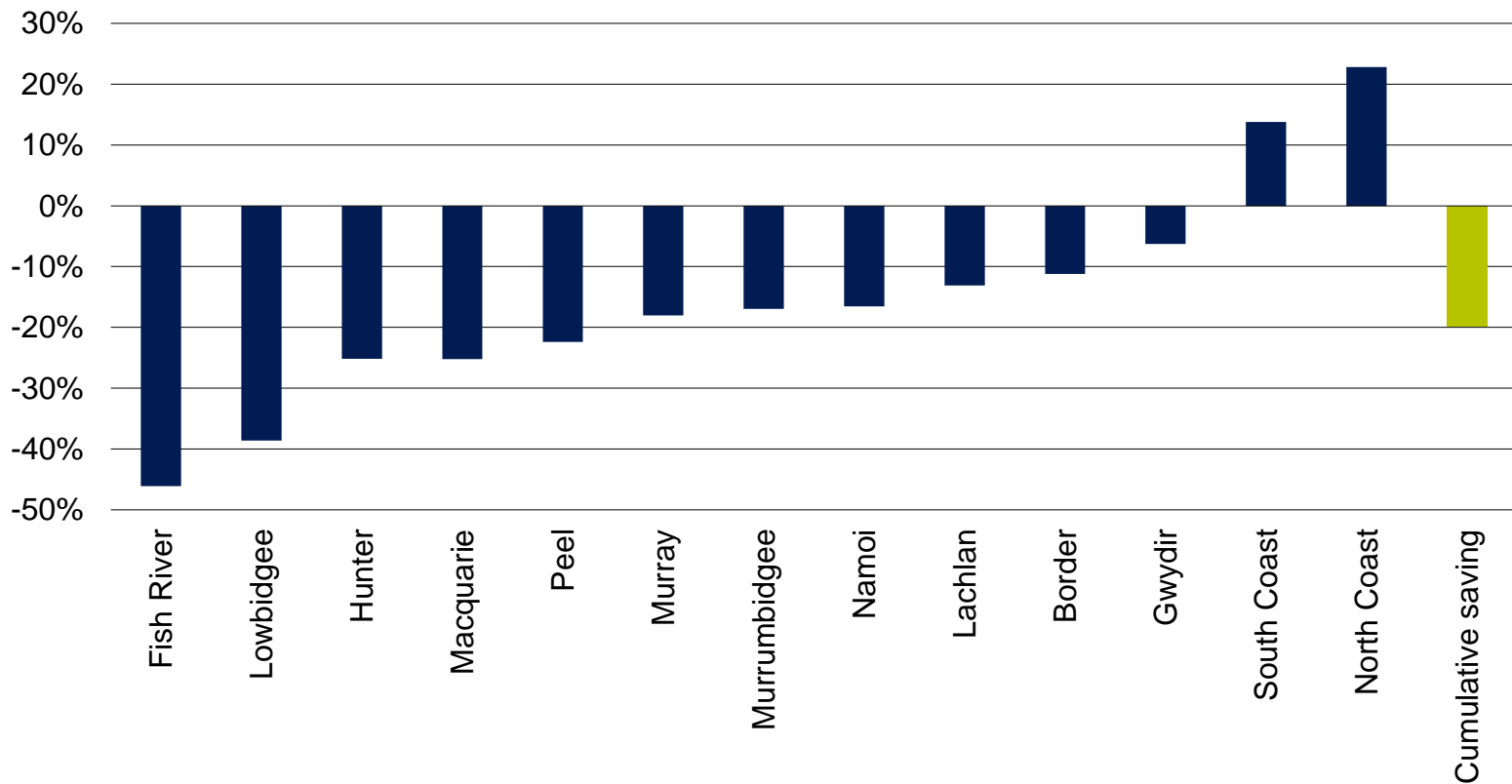


# WaterNSW's proposed Opex

- ▼ Total Opex of \$154.9m over the period 2017-18 to 2020-21 (\$38.7m/year)
- ▼ By 2020-21, user share around \$8.5m/year (20%) lower than that used to set 2016-17 prices
- ▼ Savings from integration & restructure of former State Water Corporation & Sydney Catchment Authority
- ▼ Lower maintenance, hydrometric monitoring & planning costs

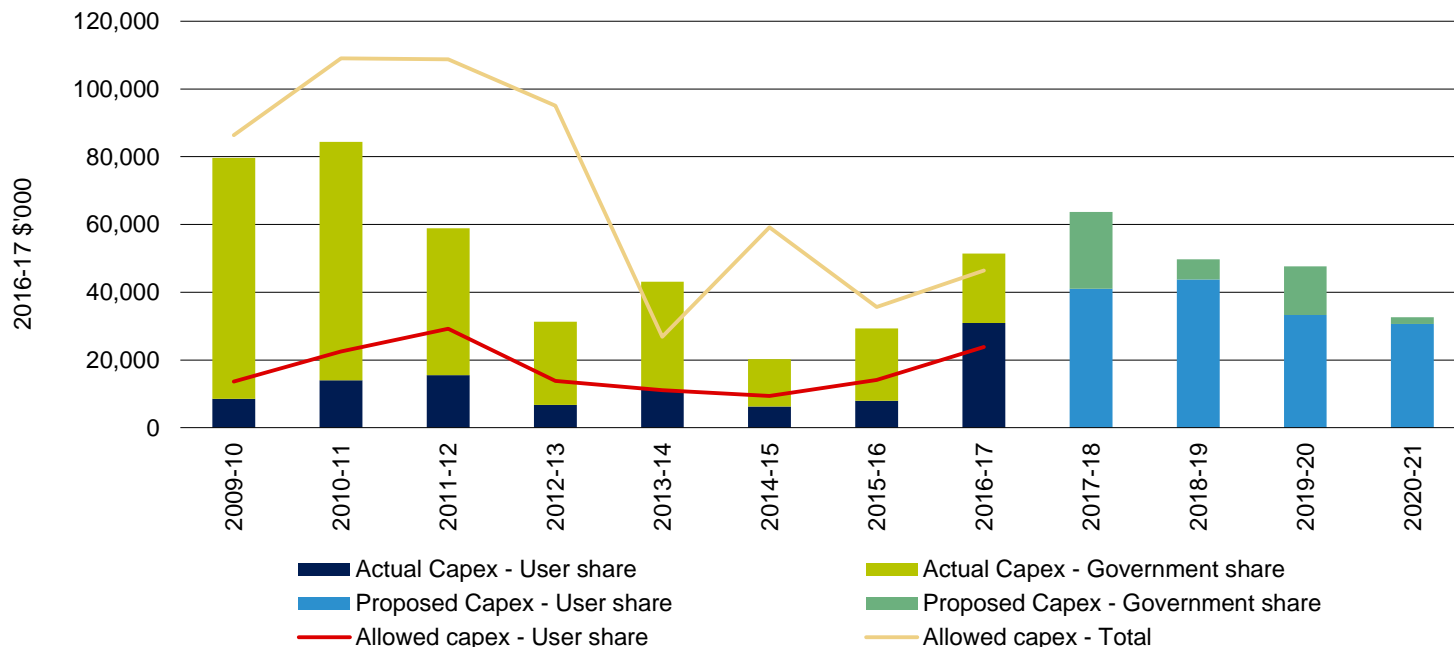
# WaterNSW's proposed Opex by valley

- ▼ Percentage change in user share of Opex – 2016-17 determined vs 2020-21 proposed



# WaterNSW's proposed Capex

- ▼ Total Capex of \$193.7m over the period 2017-18 to 2020-21 (\$48m/year)
  - ▼ Total increase by 34% compared to past 4 years
  - ▼ User share increase by 164% compared to past 4 years



# WaterNSW's proposed Capex

- ▼ Capital maintenance allowance
  - ▼ Represents annual expenditure required in long run to renew/replace existing assets
  - ▼ Greater than building block allowance for depreciation of the RAB
    - RAB is lower than value of physical assets
  - ▼ Aims to avoid growing infrastructure deficit

# User cost shares

- ▼ Share of costs (between 0% & 100%) allocated to water users based on '*impactor pays*' principle

## **WaterNSW's proposal:**

- ▼ Use same user shares as applied in:
  - ▼ IPART's 2010 determination
  - ▼ 2014 ACCC Decision
- ▼ Use current framework to allocate costs based on '*impactor pays*' principle between:
  - ▼ Water users
  - ▼ Broader community

# WaterNSW's proposed user costs shares for Opex & Capex

Cost item or activity	User Share
<b>Operating expenditure</b>	
Customer Support/Billing, Metering & Compliance, Water Delivery, Maintenance, Asset Management Planning, Insurance	<b>100%</b>
Hydrometric Monitoring	<b>90%</b>
Flood Operations, Water Quality Monitoring, Dam Safety Compliance, Environmental Planning & Protection	<b>50%</b>
Dam Safety Compliance Capital Projects - Pre 1997	<b>0%</b>
<b>Capital expenditure</b>	
Asset Management Planning, Routine Maintenance, Structural Enhancement, Corporate Systems, Capital Projects Information Management Projects, Water Delivery	<b>100%</b>
Renewal & Replacement	<b>90%</b>
Dam Safety Compliance, Environment Planning & Protection, Flood operations	<b>50%</b>
Dam Safety Compliance - Pre 1997 Construction	<b>0%</b>



# WaterNSW's expenditure including proposed user cost shares

## IPART's preliminary position in Issues Paper

- ▼ We have engaged consultants to review:
  - ▼ Prudence of past operating expenditure & capital expenditure
  - ▼ Prudence & efficiency of WaterNSW's proposed operating expenditures & future capital expenditures
  - ▼ Cost shares framework used to allocate capital & operational expenditure between water users & the NSW Government

# Questions

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- ▼ Are WaterNSW's proposed operating costs over the 2017 determination period efficient?
- ▼ What scope is there for WaterNSW to achieve further efficiency gains over the 2017 determination period?
- ▼ Is WaterNSW's forecast capital expenditure for the 2017 determination period prudent & efficient?
- ▼ Is WaterNSW's proposal to have a capital maintenance allowance in addition to its building block allowance for depreciation reasonable?
- ▼ Is WaterNSW's forecast user share of costs reasonable?

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Session 2:

Price structures & managing volatility

# Price structures

- ▼ WaterNSW currently levies two-part tariff for each valley – in most valleys:
  - ▼ 40% of revenue recovered from annual fixed charges (\$/ML of entitlement)
  - ▼ 60% of revenue recovered from variable charges (\$/ML of water take or ‘usage’)
- ▼ High security premium based on reliability

## **WaterNSW’s proposal:**

- ▼ Generally maintain current price structures (except BRC & MDBA prices)

# Forecast volumes & entitlements

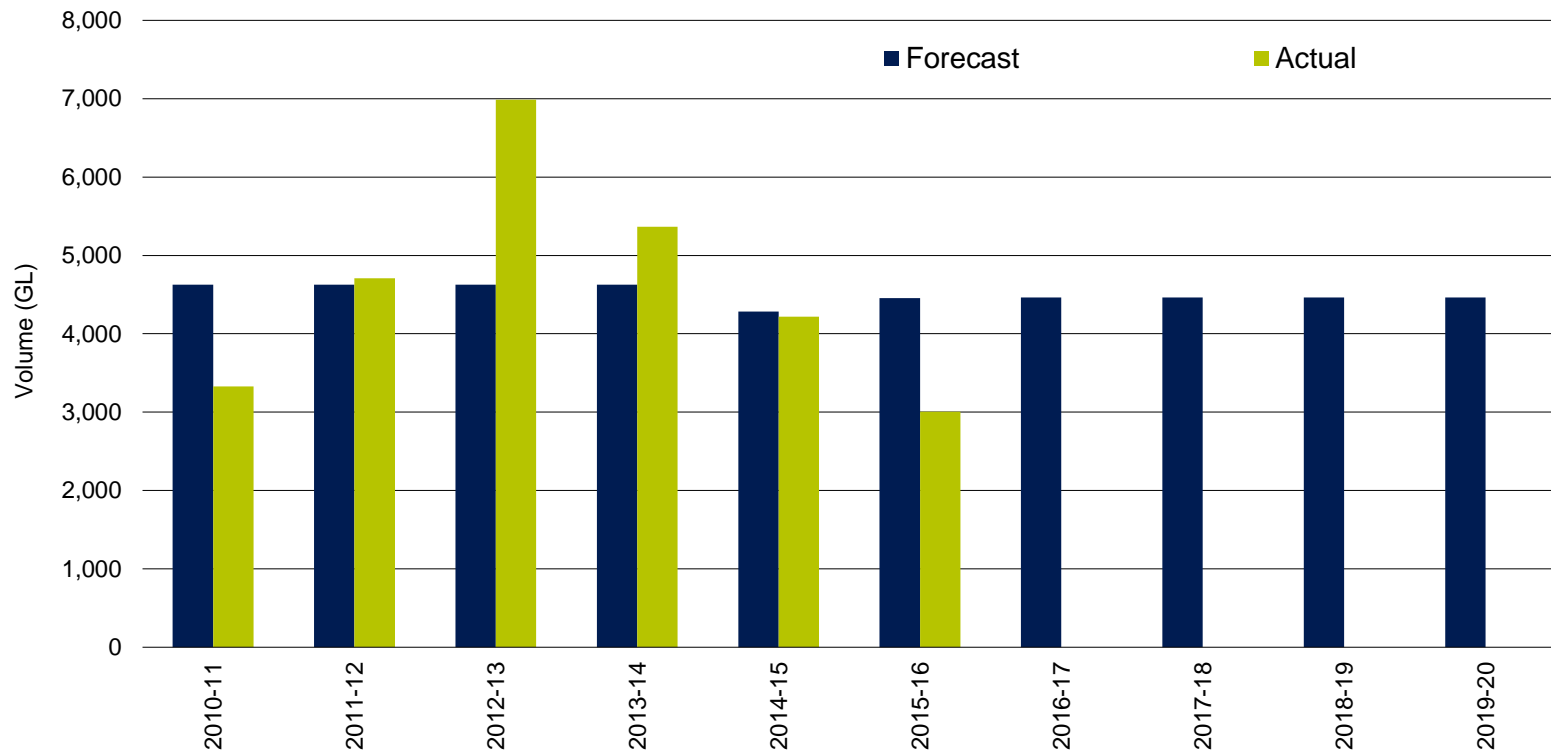
- ▼ For each valley:
  - ▼ Forecast water sales used to determine variable charges
  - ▼ Forecast entitlement volumes used to set fixed entitlement charge

## **WaterNSW's proposal:**

- ▼ Retain current forecasting methodology for water usage
  - ▼ 20-year rolling average of actual water sales

# Forecast volumes & entitlements

## ▼ Actual & forecast volumes since 2010-11 (GL)



# Managing volatility

- ▼ Risk in revenue volatility results from:
  - ▼ Current 40:60 fixed to variable pricing structure for most valleys, while costs are largely fixed
  - ▼ Difficulty in forecasting water sales
- ▼ 2010 IPART Determination:
  - ▼ Revenue volatility allowance included as annual building block cost item in WaterNSW's NRR (~ \$2.6m/year)
- ▼ 2014 ACCC Decision:
  - ▼ Introduced Unders & Overs Mechanism (UOM)
  - ▼ Annual adjustment to prices: to factor in UOM & incorporate updated sales forecasts

# Managing volatility

## WaterNSW's proposal:

- ▼ Maintain Unders & Overs Mechanism (UOM)
- ▼ Introduce risk mitigation allowance to incorporate costs of managing revenue volatility
  - ▼ Purchase Risk Transfer Product (RTP) from third party
  - ▼ WaterNSW pays annual premium to third party, who would take on risk of revenue variability for 40% of usage revenues



# Managing volatility

- ▼ Volatility costs to be passed through to general security customers in relevant valleys, based on revenue volatility, eg,:

Valley	RTP as % of proposed user share NRR
Murray	2.3%
Murrumbidgee	4.0%
Lowbidgee	0.0%

- ▼ Customers canvassed choosing to move to 80:20 fixed to variable tariff structure to avoid RTP premium

# Managing volatility

## IPART's preliminary position in Issues Paper

- ▼ We recognise the risk facing WaterNSW under a 40:60 fixed variable price structure
- ▼ Support, **in principle**, concept of allowing for costs of managing risks if deemed efficient
- ▼ However, we will consider:
  - ▼ all elements of WaterNSW's proposal to mitigate risk
  - ▼ distribution of risk between WaterNSW & its customers
  - ▼ alternative options - including pros & cons of alternative price structures

# Questions

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- ▼ What is the appropriate level of risk WaterNSW should bear?
- ▼ Should water users pay for WaterNSW's costs of managing volatility?
- ▼ What implications, if any, should WaterNSW's proposed RTP have for the Unders & Overs Mechanism?
- ▼ What rate should be applied to the UOM account, if continued?
- ▼ Should an UOM be introduced for users in the Peel Valley?
- ▼ Would water users be willing to move to an 80:20 fixed to variable price structure if they saved on the cost of a RTP (or similar means of managing risk)?

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Session 3:

BRC/MDBA costs

ICD discounts

# BRC/MDBA costs

- ▼ BRC & MDBA contributions apply in 3 valleys (Border, Murray & Murrumbidgee)
- ▼ MDBA – cross-jurisdictional body that operates & maintains jointly ‘owned’ infrastructure
- ▼ WaterNSW categorises MDBA costs as ‘uncontrollable costs’ (ie, advised by DPI Water)
  - ▼ Propose costs be passed through to relevant customers
- ▼ 2014 ACCC Decision – BRC & MDBA costs a “regulatory obligation” for State Water

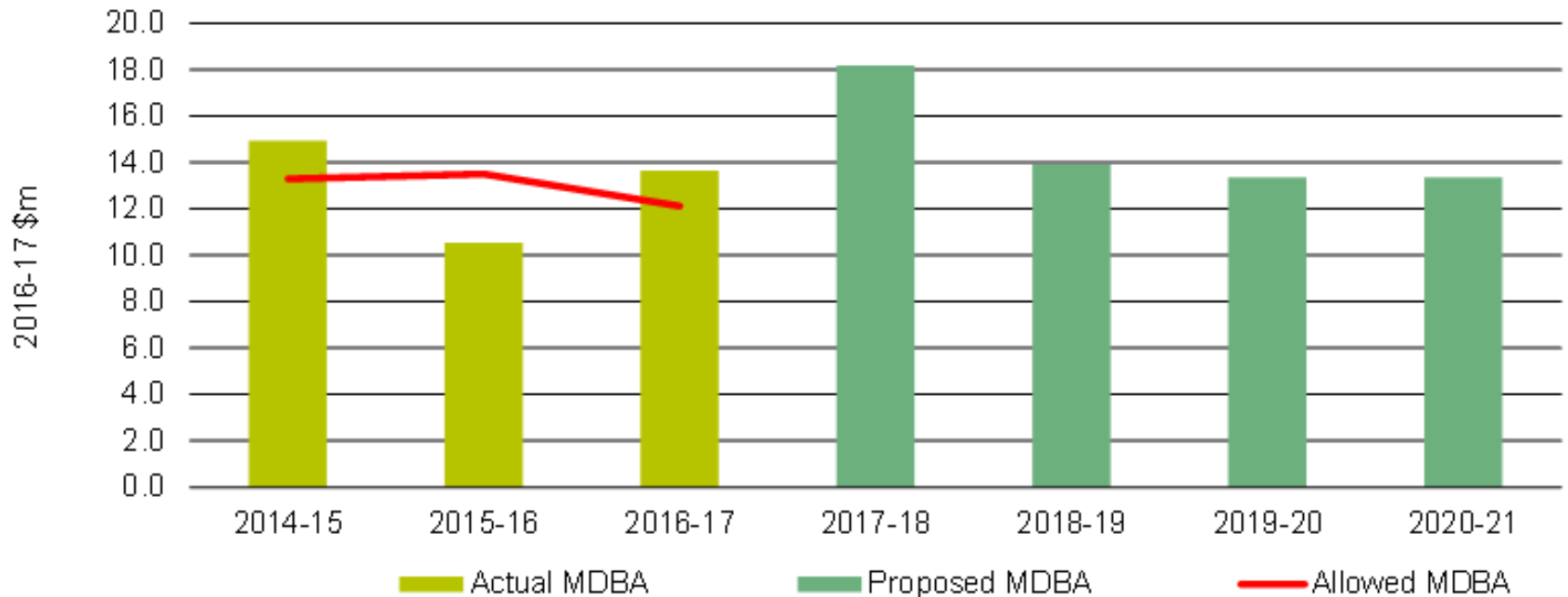
# Proposed MDBA user costs

- ▼ User share of cost \$59m over the 2017 determination period (\$14.7m/year)
- ▼ Annual user share to increase 13% compared to 2014 ACCC Decision

## **WaterNSW's proposal:**

- ▼ Costs to be recouped via annual fixed charge (100%) on \$ per ML of entitlement basis
  - ▼ Instead of current 40:60 split between fixed & usage charges
- ▼ Adjusted high security premium to avoid bill shocks

# MDBA allowed, actual & proposed costs



# MDBA charges

## ▼ Proposed charges for Murrumbidgee Valley (per ML)

		MDBA charges (excluding inflation)			Final charges (excluding inflation)	
High Security	↑	67.1%	(\$0.72 to \$1.20)	↑	8.1%	(\$3.79 to \$4.10)
General Security	↑	193.3%	(\$0.29 to \$0.86)	↑	43.4%	(\$1.56 to \$2.23)
Usage	↓	100%	(\$0.82 to \$0.00)	↓	23.9%	(\$4.36 to \$3.32)

## ▼ Proposed charges for Murray Valley (per ML)

		MDBA charges (excluding inflation)			Final charges (excluding inflation)	
High Security	↑	105.4%	(\$3.22 to \$6.61)	↑	62.4%	(\$5.00 to \$8.13)
General Security	↑	162.4%	(\$1.74 to \$4.58)	↑	104.7%	(\$2.71 to \$5.55)
Usage	↓	100%	(\$4.17 to \$0.00)	↓	69.6%	(\$6.48 to \$1.97)



# Costs outlined by DPI Water

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- ▼ MDBA Joint Venture costs
- ▼ Based on the draft MDBA Corporate Plan 2016-17 to 2019-20
- ▼ The proposed costs for 2020-21 are based on previous year costs (ie, 2019-20)

# MDBA corporate planning process

- ▼ Program established on annual basis
  - ▼ Current year budget approved
  - ▼ 3 year indicative outlook
  - ▼ Capital investment funded in the year incurred
- ▼ Program developed with advice from State Constructing Authorities (SCA's)
  - ▼ SCA's operate & maintain assets & deliver programs
- ▼ MDBA collates advice provided by SCA's
  - ▼ Reviews priorities & develops consolidated program for consideration by Governments
- ▼ Total Program scope & costs approved by Governments through MDB Ministerial Council

# Allocation of MDBA costs

- ▼ Total program costs shared between Governments
  - ▼ Commonwealth meets 25% of capital costs
  - ▼ Balance met by States as per agreed cost shares based on combination of:
    - Program mix (ie, water supply, environment, salinity)
    - Water entitlements held
    - 5-year rolling average of water use
    - Local beneficiary principle (for non-water supply assets)
- ▼ How States recover costs from users is a matter for individual states
  - ▼ MDBA does not influence that process

# Efficiency & prudence of MDBA costs

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- ▼ Efficiency review commissioned by Governments in 2014 to examine River Murray Operations program
- ▼ Examined MDBA & Constructing Authority roles & processes
- ▼ Review concluded:
  - ▼ Program prudent & efficient
  - ▼ Annual cost of managing RMO ~\$70million
- ▼ Final reports available on MDBA website

# MDBA costs

## IPART's preliminary position in Issues Paper

- ▼ In the absence of a direction from Government to WaterNSW to fund these costs, we will:
  - ▼ Review prudence & efficiency of proposed MDBA & BRC costs
  - ▼ Provide this figure to DPI Water & others to inform a direction
- ▼ We will examine application of user shares & basis of estimated provided by DPI Water

# Questions

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- ▼ Is the proposed BRC/MDBA user share of costs efficient?
- ▼ How should BRC/MDBA costs be recovered from water users
  - ▼ How should charges be structured to recover these costs?
- ▼ Is WaterNSW's proposed adjustment to the high security premium reasonable?

# Irrigation corporation & districts (ICD) discounts

- ▼ ICD discounts reflect costs avoided by WaterNSW by activities undertaken by ICDs

## **WaterNSW's proposal:**

- ▼ Continue to pay ICD discounts
- ▼ Lower ICDs discounts than 2014 ACCC Decision (~50% reduction compared to 2016-17)
- ▼ Proposed reduction based on:
  - ▼ Lower costs for metering, compliance & customer billing
  - ▼ Reduction in the WACC
  - ▼ Reduction in entitlements held by some ICDs

# WaterNSW's proposed ICD discounts vs discounts granted by ACCC (\$2016-17)

Valley	ACCC	WaterNSW's proposed rebates			
	2016-17	2017-18	2018-19	2019-20	2020-21
Jemalong	63,032	39,268	37,134	37,101	36,368
Murray Irrigation	926,340	553,805	535,961	535,776	529,003
Western Murray	32,368	17,098	16,547	16,541	16,332
West Corugan	51,408	30,506	29,523	29,512	29,139
Moira	25,687	14,218	13,760	13,756	13,582
Eagle Creek	9,060	23	22	22	22
Murrumbidgee Irrigation	649,655	248,547	238,815	238,713	235,025
Coleambally	285,096	109,864	105,562	105,517	103,887
<b>Total rebates</b>	<b>2,042,647</b>	<b>1,013,328</b>	<b>977,323</b>	<b>976,938</b>	<b>963,358</b>



# ICD discounts

## IPART's preliminary position in Issues Paper

- ▼ We support the principle of ICD discounts & are reviewing WaterNSW's efficient avoided costs

## Questions

- ▼ Should ICDs receive rebates to reflect the avoided costs of the bulk water services they provide to their members?
- ▼ Are the levels of ICD discounts proposed by WaterNSW reasonable?

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## Session 4:

Meter service & miscellaneous charges

Yanco Creek levy

Cost recovery

# Meter service charges (MSCs)

## ▼ 2010 IPART Determination

- ▼ MSC introduced for new meters installed under NSW metering scheme

## ▼ 2014 ACCC Decision

- ▼ Separate MSCs for telemetered & non-telemetered meters
- ▼ Differential pricing by meter size

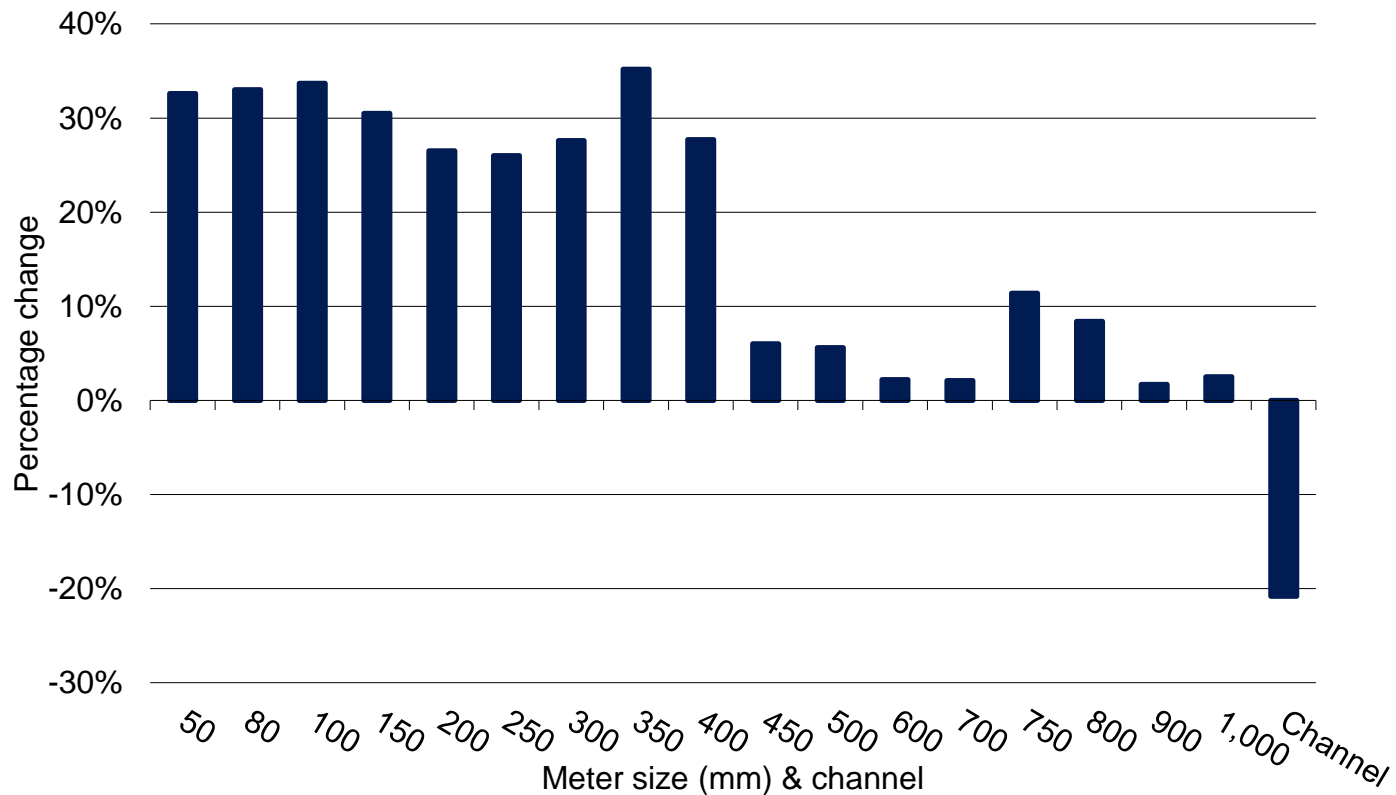
## **WaterNSW's proposal:**

### ▼ Continue levying MSCs

- ▼ Same level of charging for both telemetered & non-telemetered meters (differential pricing by meter size only)
- ▼ MSCs to increase (up to ~35%) over determination period for all meter sizes, except channel meters

# WaterNSW's proposed MSCs

Percentage change in MSC from 2016-17 to 2020-21



# Meter service charges (MSCs)

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## **IPART's preliminary position in Issues Paper**

- ▼ We have engaged consultants to assess & market-test MSCs proposed by WaterNSW

## **Question**

- ▼ Are WaterNSW's proposed meter service charges reasonable?

# Water reading & assessment charge

## Miscellaneous charges

- ▼ Meter reading & water use assessment costs are recovered through bulk water charges
- ▼ There are six miscellaneous charges to recover the cost of non-routine services:
  - ▼ trade processing charge
  - ▼ environmental gauging station charge
  - ▼ meter accuracy deposit for verification & testing
  - ▼ meter accuracy deposit for verification & testing (lab.)
  - ▼ Fish River connection & disconnection charge

### Question

- ▼ Should meter reading costs be recovered through a separate charge?

# Environmental gauging station charge

## WaterNSW's proposal

Charge	2016-17 (current)	2017-18 & onwards	How charge is levied
<b>Environmental gauging station charge</b>	\$8,789 per year	\$18,658 per year	Before works are carried out as requested by customer

## IPART's preliminary position in Issues Paper

- ▼ We will consider the proposed charge & examine whether it reflects efficient costs

## Question

- ▼ Is WaterNSW's proposed charge reasonable?

# Credit card fees

## **WaterNSW's proposal:**

- ▼ Introduce credit cards as payment option
- ▼ Pass on cost of credit card payment fee based on normal cost of merchant interchange fees
  - ▼ 0.44% for Visa/Mastercard
  - ▼ 1.54% for American Express cards

## **IPART's preliminary position in Issues Paper**

- ▼ Our view is to not regulate credit card payment fees levied by WaterNSW
- ▼ Customers can avoid credit card fees, as they have a choice of payment methods



# Yanco Creek levy

- ▼ Levied on a sub-set of customers in Murrumbidgee valley since 2005
- ▼ To fund rehabilitation of Yanco Columbo system; improve flows & provide significant water efficiencies

## **WaterNSW's proposal:**

- ▼ Continue to apply levy (\$0.90/ML of entitlement)

## **IPART's preliminary position in Issues Paper**

- ▼ We will consider whether the levy should be charged on a per ML of water entitlement or ML of water usage basis

# Yanco Creek levy

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## Questions

- ▼ Do water users in the Yanco Creek system support the continuation of the Yanco Creek levy as proposed by WaterNSW?
- ▼ Should the Yanco Creek levy be charged per ML of water entitlement or per ML of water usage?

# Cost recovery

- ▼ We aim to set prices that fully recover users' share of WaterNSW's efficient costs
- ▼ Two valleys (South Coast & North Coast) are well below full cost recovery

## **WaterNSW's proposal:**

- ▼ Cap price increases (at 10% per year) in valleys below full cost recovery
- ▼ Over 2017 determination period:
  - ▼ North Coast would only recover 12% of costs
  - ▼ South Coast would only recover 44% of costs
  - ▼ NSW Government would need to contribute around \$1.2m/year, to cover shortfall

# Cost recovery

## IPART's preliminary position in Issues Paper

- ▼ We have engaged consultants to undertake a review to establish principles for setting prices in valleys where full cost recovery is unattainable

## Questions

- ▼ In valleys that are below full cost recovery:
  - ▼ How should the cost of providing bulk water services be recovered?
  - ▼ What principles or approaches should we use to assess the efficient costs of services?
  - ▼ What principles should we use to determine prices?

# Questions

## **Meter service & miscellaneous charges**

- ▼ Are WaterNSW's proposed meter service charges & other miscellaneous charges reasonable?

## **Yanco Creek Levy**

- ▼ Do water users in the Yanco Creek system support the Yanco Creek levy as proposed by WaterNSW? Should the levy be charged per ML of water entitlement or per ML of water usage?

## **Cost recovery**

In valleys that are below full cost recovery:

- ▼ How should the cost of providing bulk water services be recovered?
- ▼ What principles should we use to assess the efficient costs of services & determine prices?

# Review of prices for WaterNSW rural bulk water services










Public Hearing

ADDITIONAL SLIDES

# Water NSW's proposed prices for 2017/18 to 2020/21 – Southern NSW










## Murray Valley

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)

## Murrumbidgee Valley

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		5.6% (\$3.08 to \$2.90)		67.1% (\$0.72 to \$1.20)		8.1% (\$3.79 to \$4.10)
General Security		8.4% (\$1.26 to \$1.37)		193.3% (\$0.29 to \$0.86)		43.4% (\$1.56 to \$2.23)
Usage		6.1% (\$3.53 to \$3.32)		100% (\$0.82 to \$0.00)		23.9% (\$4.36 to \$3.32)

# Water NSW's proposed prices for 2017/18 to 2020/21 – Southern NSW

## Lowbidgee Valley

### WaterNSW's proposed price changes (per ML, \$2016-17)

<b>General Security (excluding inflation)</b>		0.6%	\$0.84/ML (2016-17) \$0.84/ML (2020-21)
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# GS entitlement charges with & without RTP cost (over 2017-18 to 2020-21)

Valley	GS entitlement charge <i>without</i> RTP (\$/ML)	Price of RTP (\$/ML)	GS entitlement charge <i>with</i> RTP (\$/ML)	Percentage increase in GS entitlement charge (%)
Border	\$2.00	\$0.29	\$2.30	15%
Gwydir	\$3.17	\$0.94	\$4.11	30%
Namoi	\$7.51	\$1.97	\$9.48	26%
Peel	\$2.01	\$2.76	\$4.78	137%
Lachlan	\$2.68	\$1.32	\$3.99	49%
Macquarie	\$2.64	\$0.98	\$3.62	37%
Murray	\$0.78	\$0.20	\$0.98	25%
Murrumbidgee	\$1.14	\$0.23	\$1.37	20%
Hunter	\$6.72	\$0.61	\$7.33	9%

**Notes:**

Prices are in \$2016-17.

MDBA & BRC costs have been excluded for simplicity.

RTP cost added to 'Price *without* RTP cost' does not necessarily equal 'Price *with* RTP cost' due to rounding.

RTP cost is not included in the North Coast & South Coast valleys (where prices are capped & below full cost recovery) or the Lowbidgee valley (where prices are 100% fixed).