IPART
Independent Pricing and Regulatory Tribunal
New South Wales

Review of prices for WaterNSW rural bulk water services

Public Hearing – Sydney

8 November 2016

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

- **Session 1:**
  - Introduction
  - WaterNSW's expenditure including proposed user cost shares
- **Session 2:** Price structures & managing volatility
- **Session 3:**
  - BRC/MDBA costs
  - Cost recovery
- **Session 4:** Other issues
  - Eg, meter service & miscellaneous charges, ICD discounts

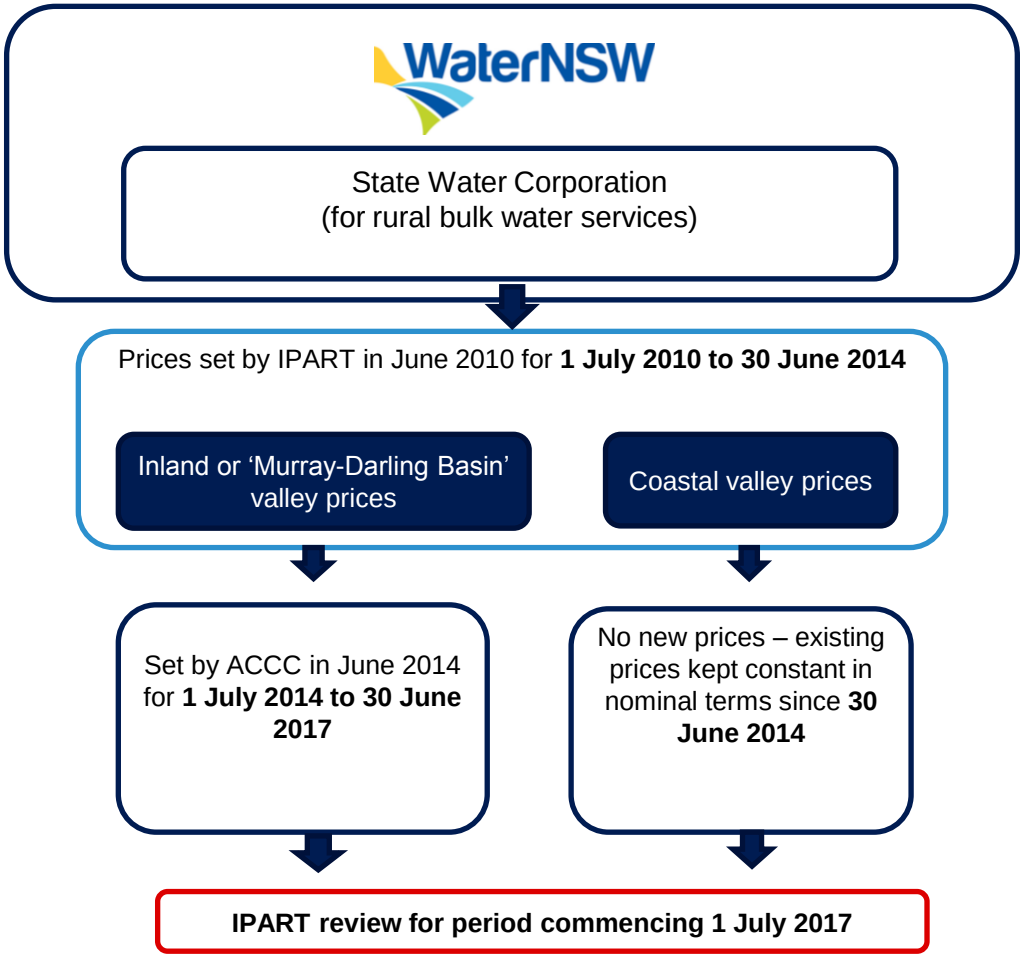
WaterNSW's role

- WaterNSW's delivers bulk water to irrigators & other licence holders on regulated rivers across NSW
- **WaterNSW's role outlined under *Water NSW Act 2014:***
  - Capture, store & release water in efficient, effective, safe & financially responsible manner
  - Supply water in compliance with appropriate quality standards
  - Ensure catchment areas & water management works are managed & protected to promote water quality, protection of public health/safety & environment
  - Provide for planning, design, modelling & construction of water storages & other water management works
  - Maintain & operate works efficiently & economically

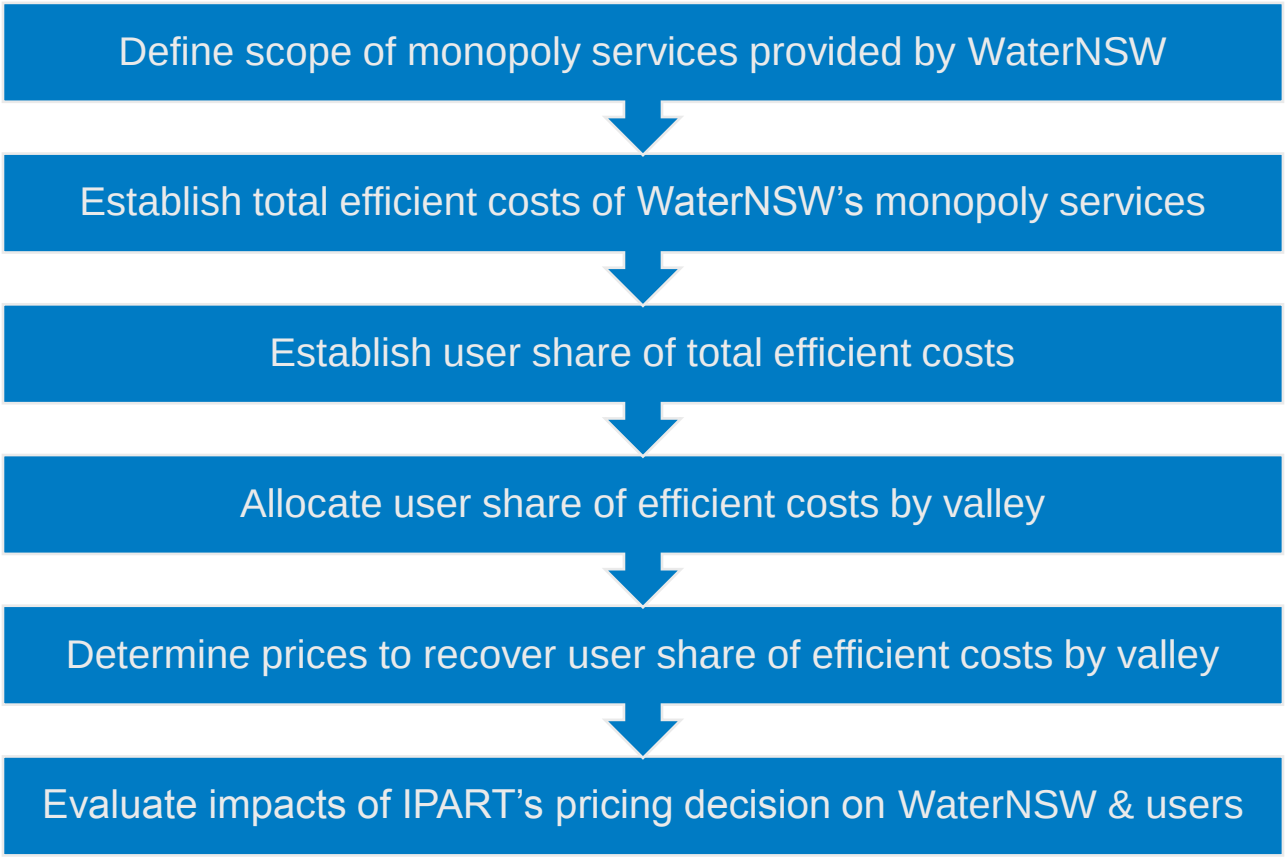
WaterNSW's prices set by IPART

- 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

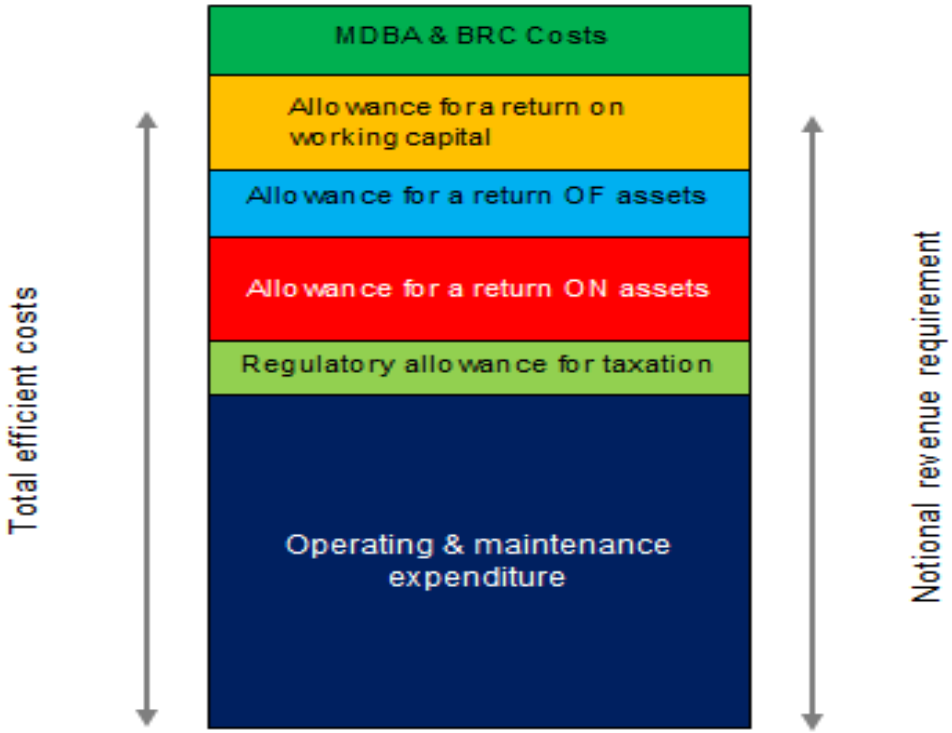


IPART approach to setting prices



Notional Revenue Requirement (NRR)

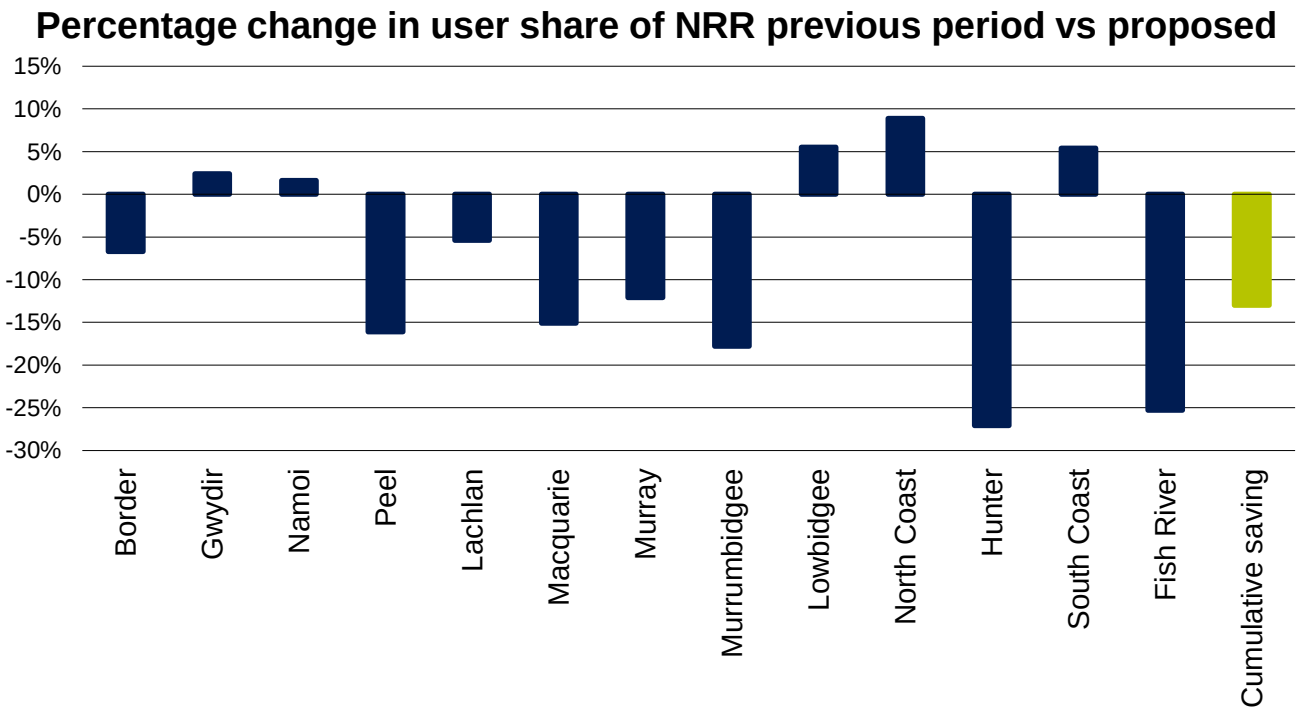
- We set prices to allow WaterNSW to recover user share of its NRR



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

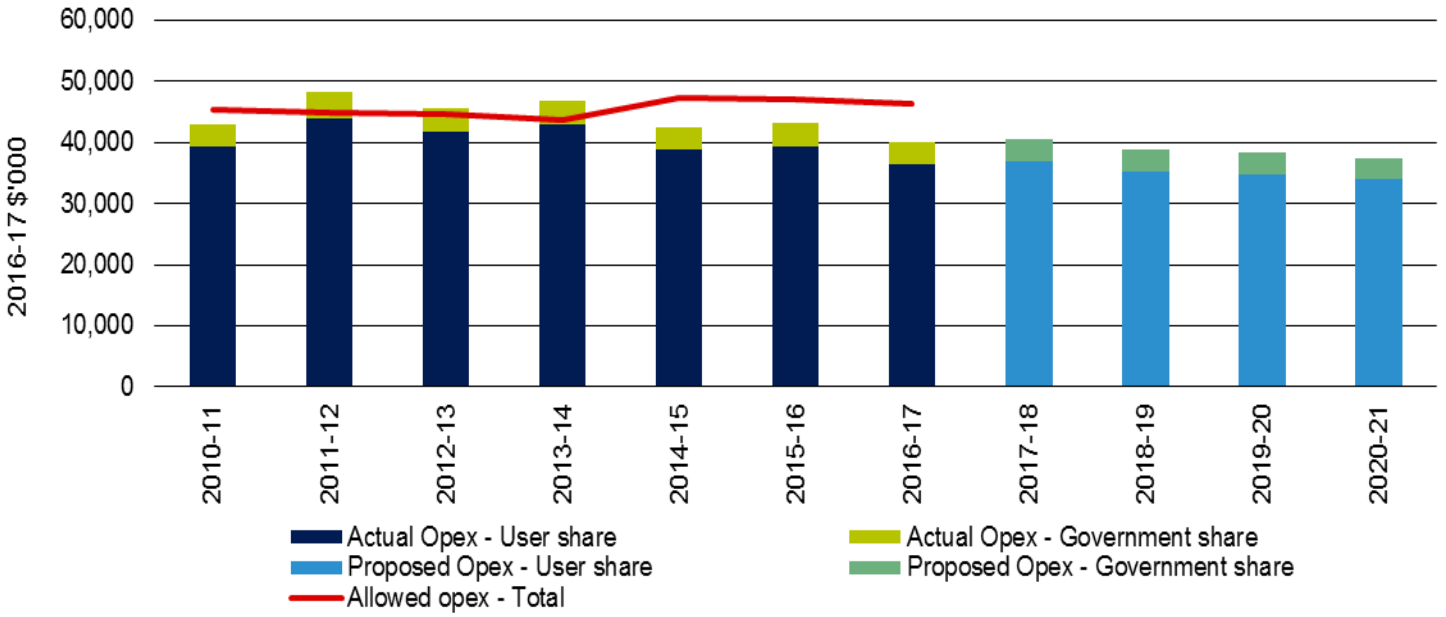
- WaterNSW's prices for each valley are determined by a number of factors including:
  - User share of its NRR
  - Forecast volume of water take & entitlements within a valley
    - For a given cost (ie, user share of NRR):

      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%)

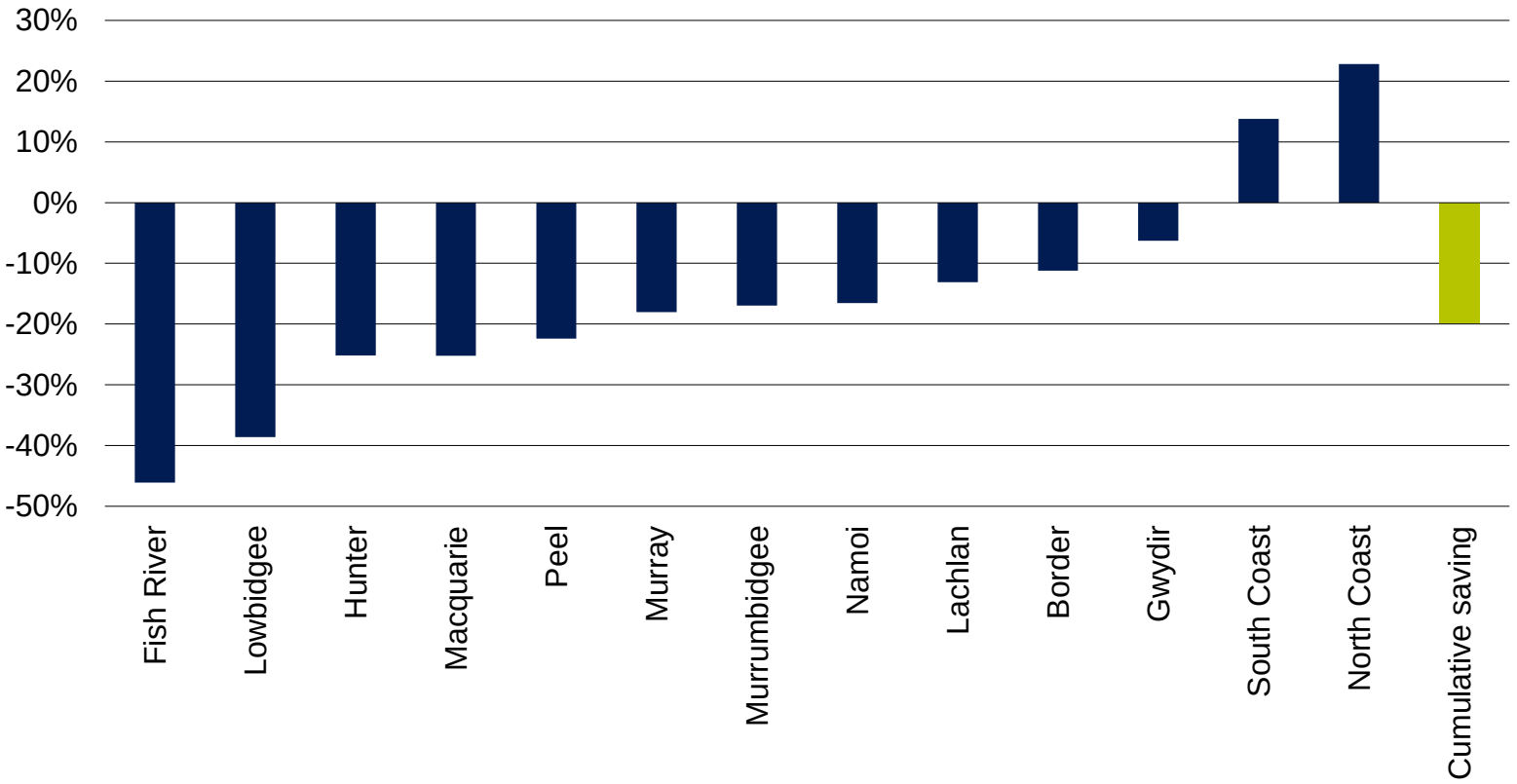


WaterNSW's proposed Opex

- 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

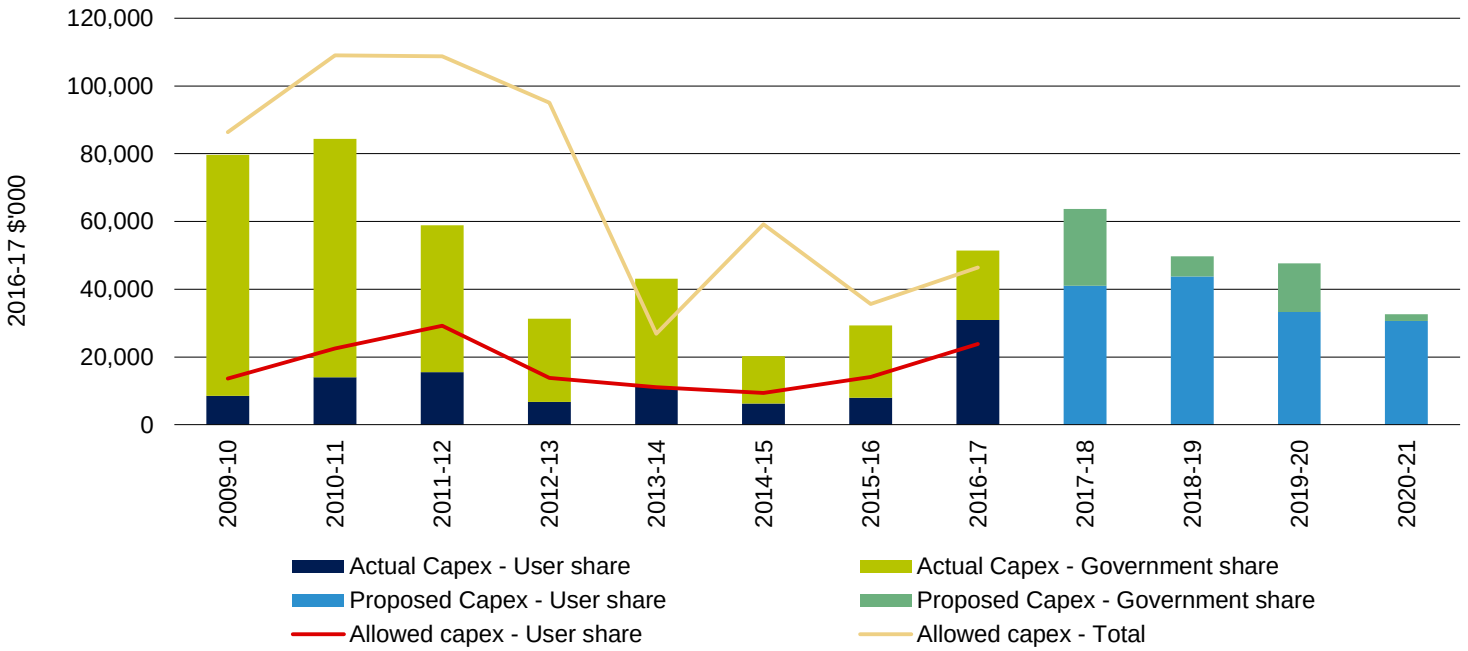
WaterNSW's proposed Opex by valley

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

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

- 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?

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

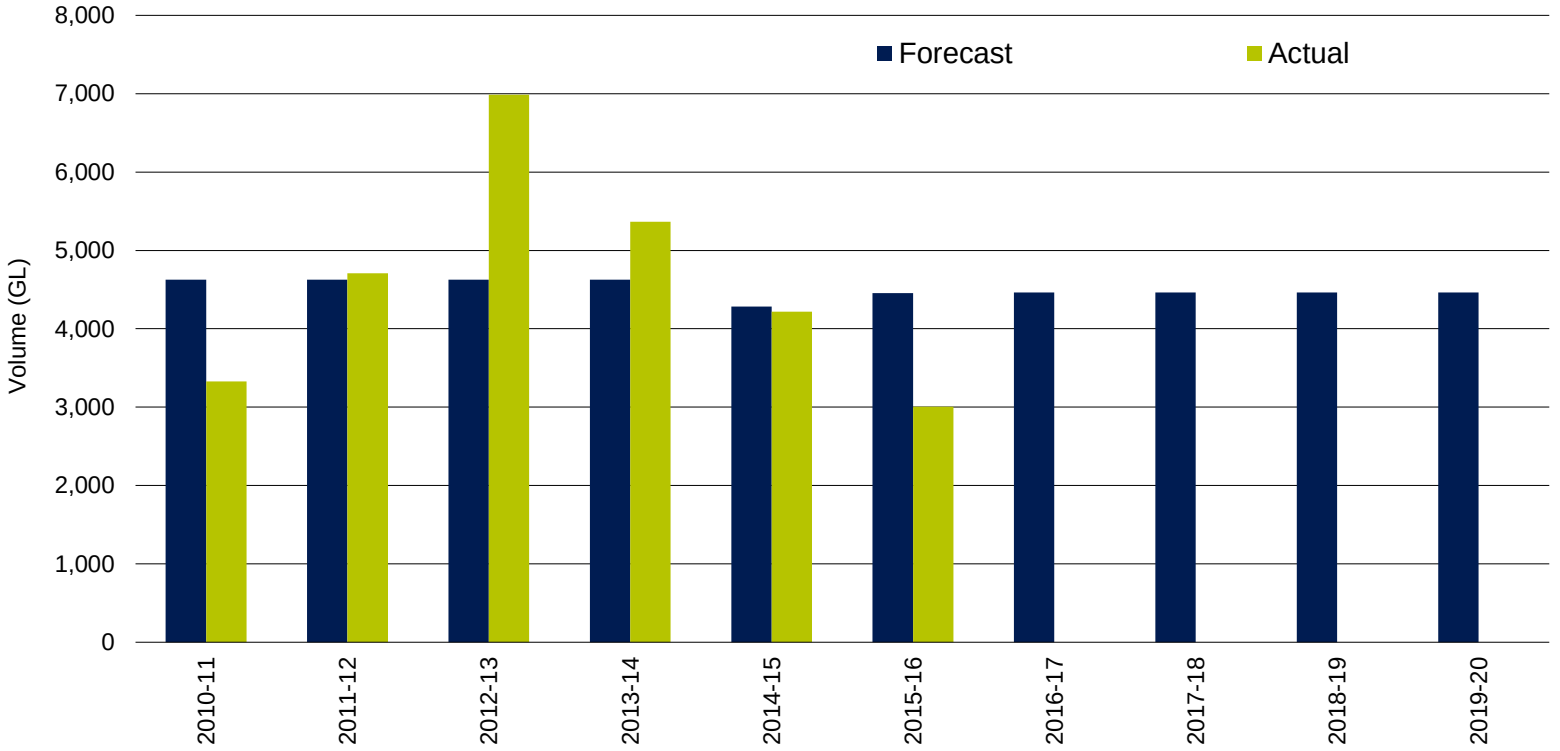
- For each valley:
  - Forecast water sales used to determine variable charges
  - Forecast entitlement volumes used to set fixed entitlement charge

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
Lachlan	11.6%
Macquarie	10.1%
North Coast	0.0%
Hunter	2.1%
South Coast	0.0%
Fish River	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

- 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)?

Session 3: Border Rivers Commission (BRC)/Murray-Darling Basin Authority (MDBA) costs & Cost recovery

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

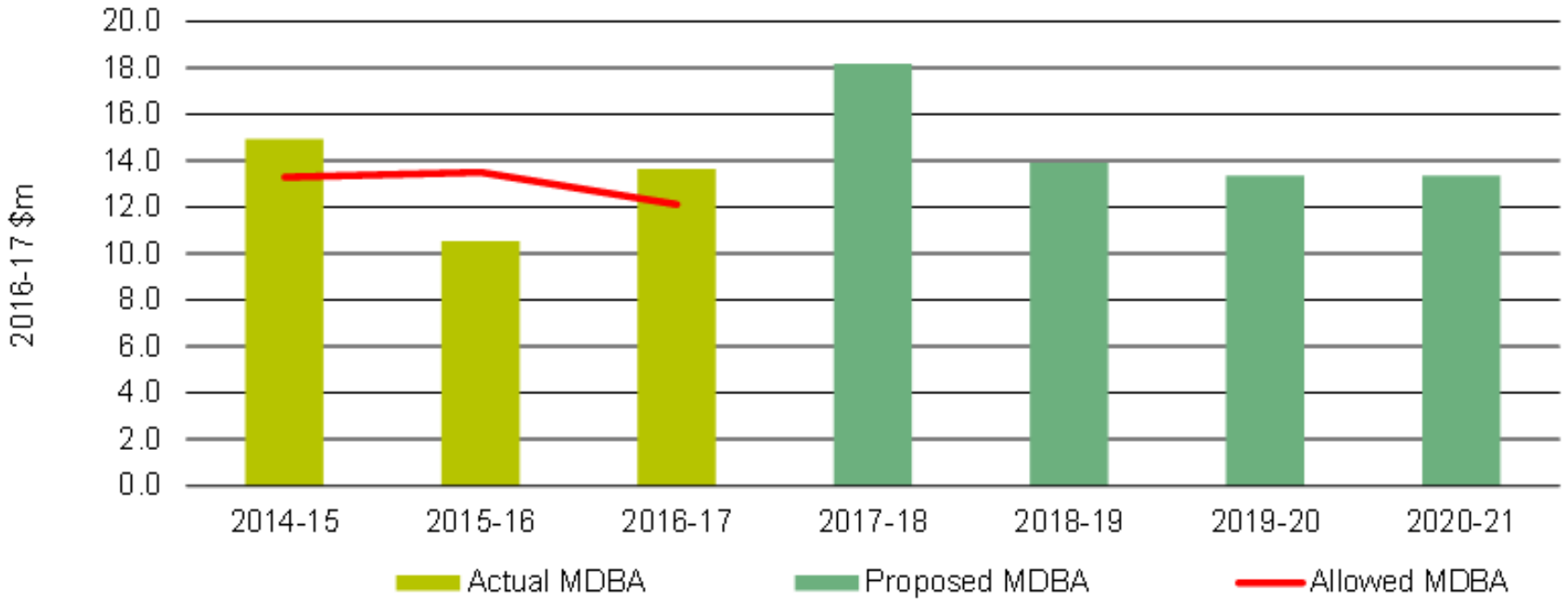
Proposed MDBA user costs

- 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

- 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 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 and others to inform a direction
- We will examine application of user shares and basis of estimated provided by DPI Water

Questions

- 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?

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
- 2010 IPART Determination & 2014 ACCC Decision:
  - Cap on price increases for valleys considerably below full cost recovery to mitigate customer impacts & manage price stability
  - Government has borne shortfall as community service obligation (CSO)

Cost recovery

WaterNSW's proposal:

- Cap price increases (at 10% per year) in valleys below full cost recovery
  - Would lead to under-recovery of costs in these valleys 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, such as in:
  - North Coast Valley
  - South Coast Valley

Questions

- How should the cost of providing bulk water services be recovered in valleys in which full cost recovery has not been achieved?
- What principles or approaches should we use to assess the efficient costs of services in valleys that are well below full cost recovery?
- What principles should we use to determine prices in valleys that are well below full cost recovery?

Session 4:
Meter service charges
Other miscellaneous charges
ICD discounts

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

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 and 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
Environmental gauging station charge	$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

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 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
Total rebates	**2,042,647**	**1,013,328**	**977,323**	**976,938**	**963,358**

Irrigation corporation 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?

Questions

Other charges

- Should meter reading costs be recovered through a separate charge?
- Is WaterNSW's proposed environmental gauging station charge reasonable?

ICD discounts

- 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?

IPART
Independent Pricing and Regulatory Tribunal
New South Wales

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Public Hearing

ADDITIONAL SLIDES

25 November 2016

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

Lachlan Valley

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

High Security	↓	10.1%	$16.48/ML (2016-17) $14.80/ML (2020-21)
General Security	↑	21.7%	$3.28/ML (2016-17) $3.99/ML (2020-21)
Variable usage	↓	11.8%	$21.12/ML (2016-17) $18.63/ML (2020-21)

Macquarie Valley

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

High Security	↓	22.7%	$16.17/ML (2016-17) $12.50/ML (2020-21)
General Security	–	0.0%	$3.62/ML (2016-17) $3.62/ML (2020-21)
Variable usage	↓	24.7%	$16.97/ML (2016-17) $12.78/ML (2020-21)

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

Hunter Valley

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

High Security	20.2%	$26.03/ML (2016-17) $20.76/ML (2020-21)
General Security	17.2%	$8.86/ML (2016-17) $7.33/ML (2020-21)
Variable Usage	12.5%	$14.77/ML (2016-17) $12.93/ML (2020-21)

Fish River Scheme

WaterNSW proposed prices for large users of bulk raw water, change from 2016-17 to 2020-21 (per kL, $2016-17)

	Minimum Annual Quantity (MAQ)		Usage up to MAQ		Usage>MAQ	
Energy Australia	↑ 5.6%	($0.36 to $0.38)	↓ 33.3%	($0.42 to $0.28)	↓ 15.4%	($0.78 to $0.66)
Oberon Council	– 0.0%	($0.38 to $0.38)	↓ 34.9%	($0.43 to $0.28)	↓ 18.5%	($0.81 to $0.66)

WaterNSW's proposed prices, change from 2016-17 to 2020-21 (per ML, $2016-17)

	Large users: filtered water		Minor customers: raw water		Minor customers: filtered water	
MAQ	↑ 17.5%	($0.57 to $0.67)	↑ 6.5%	($71.27 to $75.93)	↓ 2.4%	($137.95 to $134.61)
Up to MAQ	↓ 57.4%	($0.61 to $0.26	↓ 33.3%	($0.42 to $0.28)	↓ 66.7%	($0.78 to $0.26)
Usage>MAQ	↓ 21.2%	($1.18 to $0.93)	↓ 15.4%	($0.78 to $0.66)	↓ 36.7%	($1.47 to $0.93)

Water NSW's proposed prices for 2017/18 to 2020/21 – North & South Coast

North Coast Valley

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

High Security	32.6%	$9.54/ML (2016-17) $12.65/ML (2020-21)
General Security	32.6%	$7.25/ML (2016-17) $9.62/ML (2020-21)
Variable usage	32.6%	$45.04/ML (2016-17) $59.74/ML (2020-21)

South Coast Valley

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

High Security	32.6%	$21.12/ML (2016-17) $28.01/ML (2020-21)
General Security	32.6%	$10.09/ML (2016-17) $13.38/ML (2020-21)
Variable usage	32.6%	$40.38/ML (2016-17) $53.56/ML (2020-21)

GS entitlement charges with & without RTP cost
(over 2017-18 to 2020-21)

Valley	GS entitlement charge *without* RTP ($/ML)	Price of RTP ($/ML)	GS entitlement charge *with* 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).