

IPART ANNOUNCES DRAFT BULK WATER PRICES

Embargoed until 10.30am, Monday 15 March 2010

Sydney: March 15, 2010: The Independent Pricing and Regulatory Tribunal (IPART) today released a draft determination of prices the NSW State Water Corporation (State Water) can charge for bulk water from 1 July 2010 to 30 June 2014.

The prices are set for each valley and reflect the costs of providing bulk water services to customers that hold entitlements to either high security or general security water on regulated rivers.

Under the draft determination, increases in water bills for high security customers will vary from 4% in the Murrumbidgee to 85% in the Gwydir valley in total over the 4-year period.

For general security customers, bills will increase from 1% in the Murrumbidgee to 65% in the Lachlan Valley in total over the same period.

IPART will cap average bill increases for general security customers to 10% a year for the North Coast, South Coast and Peel valleys.

IPART has set the same broad price structure in this 4-year draft determination as in the 2006 determination, and revenue will be generated from fixed entitlement charges and volume-based user charges in a ratio of 40:60 for all valleys except the North Coast and Hunter Valley, where the ratio will be 60:40.

The increases will generate revenue from State Water customers of around \$250 million in total over the 4 years, up from \$208 million over the 2006 determination period.

State Water also forecasts that its operating expenditure will increase by 8.7% over the 4 years from \$36.1 million in 2009/10 to \$39.3 million in 2013/14.

IPART Acting Chairman and CEO Mr Jim Cox said that State Water requires sufficient operating and capital expenditure to deliver services and meet its environmental and dam safety obligations.

Mr Cox said, "State Water is forecasting increases in both operating and capital expenditures over the period to 2014 due mainly to expenditure required to meet obligations for emergency and security, dam safety and the environment."

"The Tribunal has also decided to include an allowance for revenue volatility in State Water's future revenue requirements".

The allowance will add \$12 million in total to State Water revenue over the 4 years and will increase general security entitlement charges. The volatility allowance is intended to compensate State Water for the cost of borrowing funds in those years when sales fall significantly below forecasts as occurred over the course of the 2006 determination period.

In that period, water sales only reached 30% of the planned number mainly due to drought conditions.

Mr Cox said that IPART had also changed the method of forecasting water sales.

“To reduce the risk of significant forecasting errors in future, we have adopted a 20-year moving average based on modelled and actual water extractions data,” he added.

Mr Cox also outlined a number of options including equity injections from the NSW Government for State Water to maintain its BBB credit rating over the 2010 determination period.

A fall in State Water’s credit rating is anticipated because of the forecast capital works program of \$342 million will see debt to equity ratios increase from 23% in 2009/10 to 46% in 2013/14. Much of this capital expenditure will be paid for by the NSW Government on behalf of the community and not by water users.

Mr Cox said that IPART had considered the impact that higher water charges will have on farm costs. Farm costs and water bills will vary from valley to valley.

However, for high security and general security customers who use 150 ML of water per annum, annual water bills will represent less than 9% of average total farm costs for each valley.

For high security and general security customers who use 1,000 ML of water per annum annual water bills will represent less than 11% of average total farm costs for each valley, after accounting for the price increases.

IPART is seeking comments on its draft report and determination. Comments on this draft report should be sent by 16 April 2010.

The full report can be found at www.ipart.nsw.gov.au

For further information, contact: James Cox, Acting Chairman and Chief Executive Officer
T (02) 9290 8411