

Rural water charging system review

Regional workshops – 12th and 15th of June

Aims for today

- ▼ Introduce the objectives of review
- ▼ Outline key milestones
- ▼ Outline key issues
- ▼ Seek input on analysis

What is the review about?

- ▼ Price structure options that better matches farms' cash flows
 - May also include billing or payment options
- ▼ Options for determining NSW Government's share of State Water's costs
- ▼ Recommend options taking into account constraints
 - For example, ACCC pricing rules, State Water's financial viability

Key dates

- ▼ Regional workshops - now
- ▼ Release issues paper – 26 June
- ▼ Submissions due on issues paper – 10 July
- ▼ Public hearing in Sydney – 3 July
- ▼ Release executive summary – 23 July
- ▼ Submission due on executive summary – 30 July
- ▼ Present final report to Government – 15 August

Price structures - farm cash flows

- ▼ There are a number of factors that affect farm cash flows such as:
 - ▼ Water availability (may be defined in a number of ways)
 - ▼ Industry
 - ▼ Commodity prices
 - ▼ Input prices
- ▼ Other factors that may affect farm cash flow?
- ▼ Major farm costs?

Price structure - water availability

Average General Security Allocations by Valley

Valley	20 - year average allocation as a percentage of entitlement
	1989/90 to 2008/09
Border	33%
Gwydir	34%
Hunter	97%
Lachlan	64%
Macquarie	60%
Murray	79%
Murrumbidgee	77%
Namoi	58%
North Coast	95%
Peel	74%
South Coast	81%

Source: IPART Analysis of NSW Office of Water data

Price structures - farm cash flows

- ▼ The impact that the recent drought had on farm cash flows ?
- ▼ How has water trading allowed farmers to manage water availability and manage cash flows
- ▼ Where general security allocations have been low, how have irrigators attempted to offset fixed water charges?

Price structures - current

- ▼ Current structure – in the majority of valleys/areas 40:60 fixed to variable
- ▼ Key elements of pricing structures:
 - ▼ fixed charges or variable charges
 - ▼ two-part or multi-part tariffs
 - ▼ Inclining or declining block tariffs
 - ▼ Peak and seasonal pricing
 - ▼ Differential pricing – based on location or customers
 - ▼ Payment terms
- ▼ Other issues include price setting approach

Price structures - options

- ▼ Variations of the two part tariff
 - ▼ Structural changes to tariff
 - ▼ Choice of tariff structure
- ▼ Conditional pricing policy
 - ▼ Providing option for deferral of fixed charges
 - ▼ Levying different fixed charges in period of low availability
 - ▼ Payment terms

Price structures - options

- ▼ Altering the fixed cost allocation between customer groups
 - ▼ Would require a different approach
 - ▼ Could change with conditions
- ▼ Payment terms
 - ▼ Revised payment terms
 - ▼ Hardship

Price structures - fixed versus variable

Indicative water charge for Murrumbidgee general security customer for different fixed versus variable charges (Entitlement 1,400 ML)

Water usage	Fixed	40:60 Usage	Total	Fixed	80:20 Usage	Total
80%	\$2,103	\$4,005	\$6,108	\$4,205	\$1,335	\$5,540
60%	\$2,103	\$3,004	\$5,106	\$4,205	\$1,001	\$5,207
50%	\$2,103	\$2,503	\$4,606	\$4,205	\$834	\$5,040
20%	\$2,103	\$1,001	\$3,104	\$4,205	\$334	\$4,539
5%	\$2,103	\$250	\$2,353	\$4,205	\$83	\$4,289
0%	\$2,103	\$-	\$2,103	\$4,205	\$-	\$4,205

Cost shares

- ▼ Current method based on sharing cost between Government and users
- ▼ Some valleys do not fully recover user share
- ▼ ACCC will not set cost shares
- ▼ NSW Government must agree to cost shares

Cost shares – possible options

- ▼ Maintain our existing approach – IPART to review and set cost shares prior to each ACCC price determination
- ▼ Freeze the current cost shares – State Water applies the cost sharing ratios to the ACCC determined efficient costs
- ▼ IPART to review cost shares after fixed period eg, at every 3rd ACCC price determination
- ▼ NSW Government independently decides dollar amount of its contribution

How do we assess the options?

- ▼ Impact on State Water and Office of Water's financials
- ▼ Impact on the State Budget
- ▼ ACCC's rules and principles
- ▼ National Water Initiative pricing principles
- ▼ Effectiveness in addressing customer impacts
- ▼ Economic efficiency
- ▼ Ease of administration and implementation
- ▼ Example

Next steps

- ▼ Issues paper
- ▼ Public hearing in Sydney



Independent Pricing and Regulatory Tribunal

www.ipart.nsw.gov.au