

Pricing Proposal to the Independent Pricing and Regulatory Tribunal

Regulated prices for NSW Rural Bulk Water Services from 1 July 2021 to 30 June 2022



Summary of proposal

Introduction

WaterNSW's prices and revenues are regulated by the Independent Regulatory and Pricing Tribunal (IPART). IPART is an independent NSW Government agency that reviews prices for a range of services in NSW which include water, gas and public transport.

IPART will shortly commence a review of WaterNSW's prices for NSW Rural Bulk Water Services to be applied from 1 July 2021. As part of this process, IPART requests that WaterNSW provides it with a pricing proposal that publicly explains, justifies and documents its proposed prices for monopoly services.

This document provides a high-level summary of WaterNSW's pricing proposal for the next regulatory period. For more detail, please refer to WaterNSW's pricing proposal.

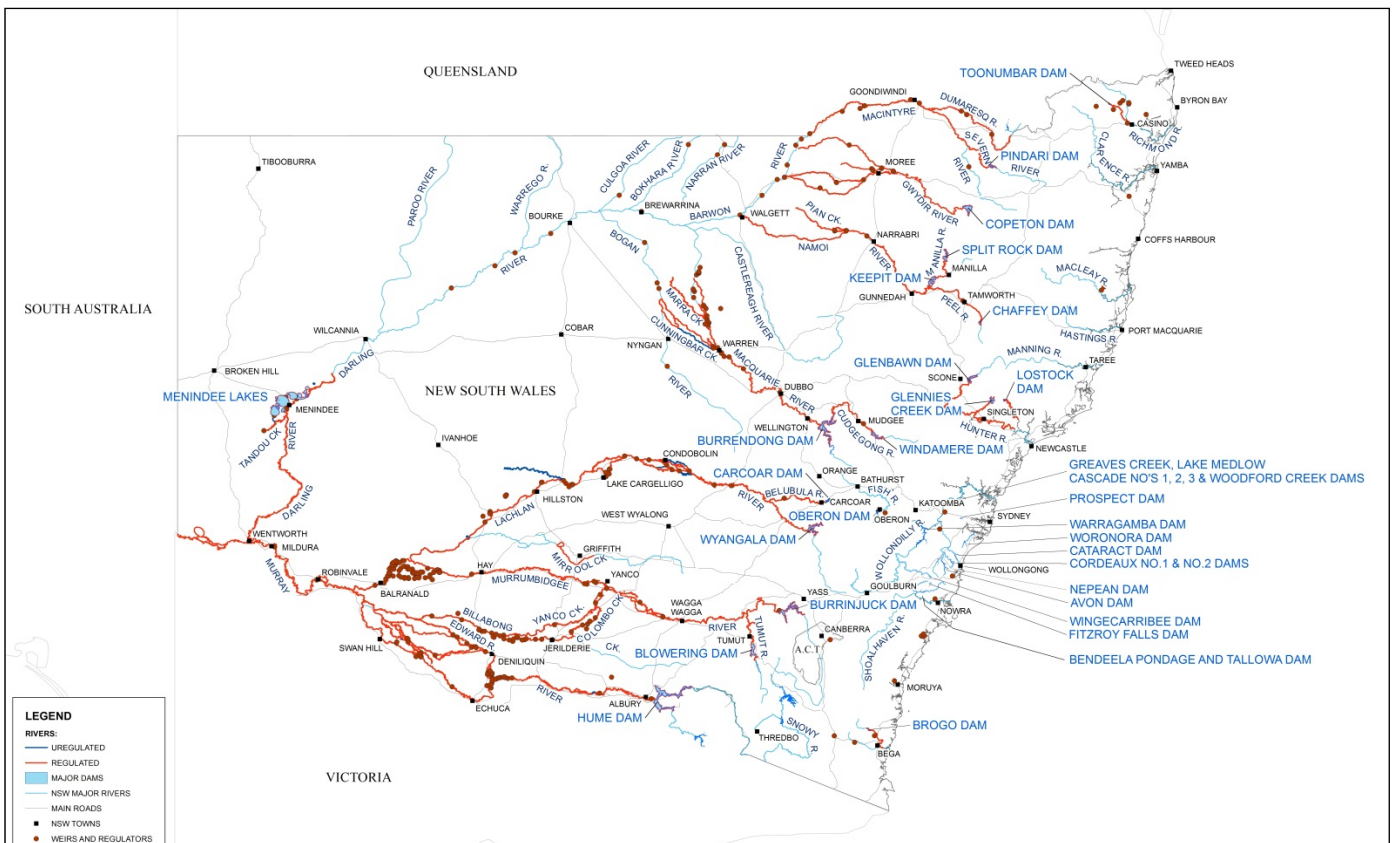
Who is WaterNSW?

WaterNSW is a NSW State-owned Corporation formed on 1 January 2015 under the *WaterNSW Act 2014* from the merger of the former Sydney Catchment Authority and the State Water Corporation. We are Australia's biggest water supplier and the major supplier of bulk water services in NSW.

We deliver water from our 42 large dams, pipelines and the State's rivers and ensure that the water we supply is reliable and, where that water is to be used by end user customers for drinking, that it is safe.

We also develop water infrastructure solutions to address water supply and reliability issues. We then plan, develop, operate and maintain that infrastructure. Our rural and coastal operations are illustrated in Figure 1 below.

Figure 1: WaterNSW Rural and Coastal operations



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How long will the next regulatory period be?

At the time of preparing our pricing proposal, drought conditions remain in many valleys and storage inflows remain low.

We are committed to ensuring a safe and secure water supply during one of the worst droughts on record.

To provide customers with drought relief while also recognising the impacts of COVID-19 on our rural customers, WaterNSW is proposing a one-year regulatory period, covering the period between 1 July 2017 to 30 June 2021.

We have prepared a streamlined regulatory pricing proposal that caps our proposed revenues in real terms and maintains the key elements of the IPART's 2017 Determination. This approach limits the areas of contention and minimises regulatory costs for the determination.

We anticipate seeking a four-year determination period in 2022 that reflects the long-term sustainable costs of supplying rural customers.

Who does this pricing proposal cover?

The proposed prices, if accepted, would apply to approximately 6,300 NSW Rural Bulk Water Services customers in rural NSW.

In the area where we supply NSW Rural Bulk Water Services under this pricing proposal, WaterNSW owns and operates 20 dams and more than 280 weirs and regulators to deliver water for town and water supplies, industry, irrigation, stock and domestic use, riparian and environmental water flows.

NSW Rural Bulk Water Services are supplied to customers in nine valleys in the Murray-Darling Basin, three coastal valleys and the Fish River. Our customers for NSW Rural Bulk Water Services include private irrigators, irrigation companies, environmental water holders and local councils.

This pricing proposal includes preliminary planning and other costs relating to our three major dam projects and other drought relief projects that we are undertaking at the request of the NSW Government. The associated costs are proposed to be recovered through

Government charges, rather than customer prices for the 2021 Determination period.

Customer consultations

Our customer engagement suggests that customers are supportive of a one-year determination period as, in addition to drought relief and COVID-19, it would allow sufficient time for WaterNSW to undertake customer consultation to give customers an active say in the development of our future proposals. This will help us better understand our customers' expectations and shape our future price-service offerings.

We look forward to continuing our engagement with our customers and other stakeholders throughout the determination process and we encourage you to participate in the IPART review process.

We will continue to work with our customers on issues of concern to them during the next determination period.

What is happening to bulk water charges?

Keeping the revenue requirement constant

We propose to cap our revenue requirement from the current determination in 'real' terms (i.e. no change except for inflation) for a one-year determination period starting on 1 July 2021 that, in the absence of other changes, would keep prices constant.

While lower interest rates are putting downward pressure on prices, the overall costs of providing bulk water services have increased above the current regulatory allowance. In recognition of the impacts that drought and the global pandemic have on our customers, we are proposing to not pass through these cost increases in 2021-22.

We propose to update prices only for changes outside of our control – i.e. the 20-year rolling average for actual water usage and changes to IPART's cost sharing arrangements. The effect is to increase prices by 5% on average due to these external factors. We also propose to pass through MDBA / BRC costs.

We are confident our pricing proposal represents an appropriate outcome for NSW Rural Bulk Water customers to help combat the impacts of drought and

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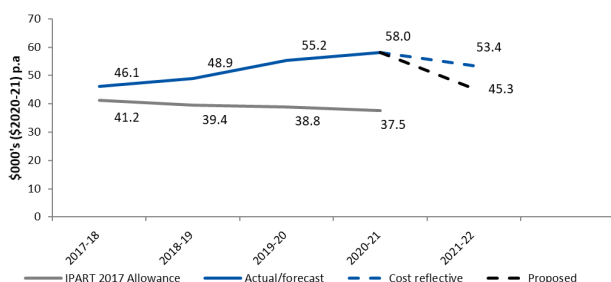
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global pandemic by keeping prices low over the one-year determination period.

Main features of our price proposal

- **Keeping the revenue requirement constant.** We propose to keep our proposed revenue requirement constant in real terms in 2021-22. In the absence of other changes, this would result in no real price increases for our customers.
- **Passing through events outside our control.** We are proposing to pass through the impacts of the following external events: changes in the 20-year rolling average for water volumes, changes in IPART's cost sharing arrangements that result in a 5% price increase on average. General security entitlement customers will see, on average, an increase in bills of 3 per cent, while high security entitlement customers will see, on average, an increase in bills of 8 per cent. We also propose to pass through MDBA / BRC costs.
- **Higher operating expenditure not passed through to customers.** We are proposing a cost reflective operating expenditure of \$53.4 million for the 2020-21. We are only proposing to pass through \$45.3 million if our \$8.1 million 'efficiency dividend' in recognition of the impacts of drought and COVID-19 is applied to operating expenditures.

Figure 2. WaterNSW's proposed operating expenditure for 2021-22



- **Capital program.** We are proposing to invest \$142.7 million in capital works in 2021-22, which includes investment in dams and drought related projects. The associated costs of these projects are proposed to be recovered through Government charges, rather than customer prices for the 2021 Determination period.
- Excluding these projects, our proposed capital expenditure is \$48.2 million in 2021-22. Our capex program will be focussed on asset renewal and

replacement to ensure reliability and capability of our existing assets.

Price structure

- We are proposing to maintain the existing fixed: variable tariff splits from the 2017 Determination.
- As the majority of customers are on a 40:60 fixed: variable split, while others are on a 60:40 fixed: variable split, we experience revenue volatility. To manage this volatility, we aim to source a risk transfer product (RTP) from the market for 2021-22, noting that the costs for the current RTP were well above the current regulatory allowance.
- We have maintained other key elements from the 2017 Determination in order to streamline the review process for our customers.

Water sector reforms

WaterNSW has not included the costs of the NSW Government's non-urban metering reform program in this pricing proposal due to the uncertainty over the costs and services that WaterNSW will be asked to undertake. This information will be provided to IPART during the review period for their assessment and inclusion in the final determination.

What happens next?

WaterNSW lodged its pricing proposal with IPART on 30 June 2020. The proposal will be available publicly on IPART's website. The following table provides a high-level timetable of the IPART review process.

Activity	Time
Water NSW's pricing proposal due	30 June 2020
IPART releases Issues Paper	Early September 2020
Submissions in response to Issues Paper due	Early October 2020
Public Hearings	November 2020
IPART releases Draft Determination	Early March 2021
Submissions in response to the Draft Determination due	End March 2021
IPART releases Final Determination	June 2021
New prices take effect	1 July 2021