

Pricing Proposal to the Independent Pricing and Regulatory Tribunal

Regulated prices for NSW Rural Bulk Water Services from 1 July 2017 to 30 June 2021



Summary of proposal

Introduction

As a regulated utility, WaterNSW's prices and revenue 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. Prices are generally reviewed every three to four years.

IPART will shortly commence a review of WaterNSW's prices for NSW Rural Bulk Water Services to be applied from 1 July 2017. 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.

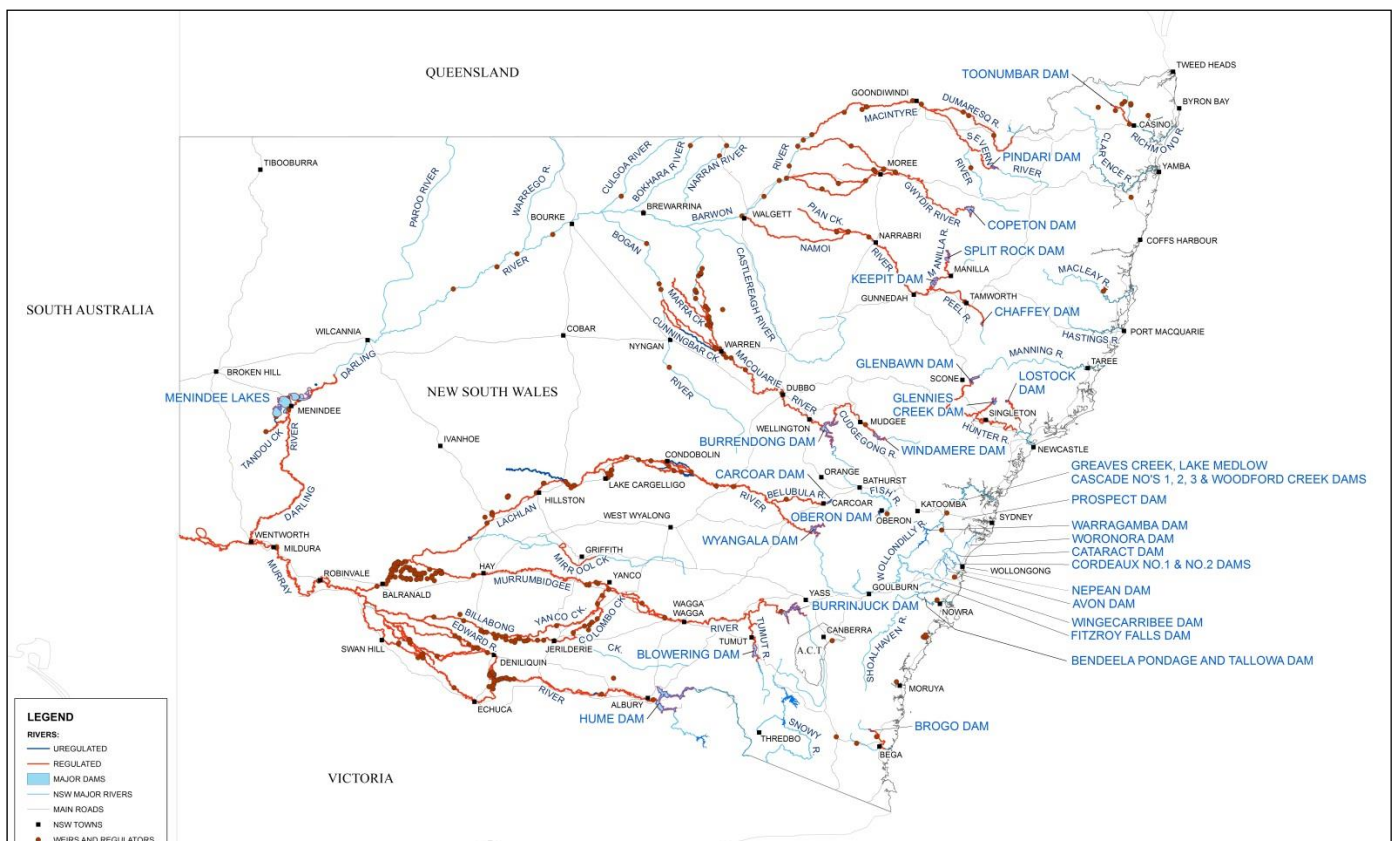
Who is WaterNSW?

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 former 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 water supply and reliability issues and 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?

WaterNSW is proposing a four year regulatory period, covering the period between 1 July 2017 to 30 June 2021.

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. Those customers are all outside of the Greater Sydney region.

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.

Customer consultations

We have consulted extensively with our customers and taken their feedback into account in preparing our pricing proposal.

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.

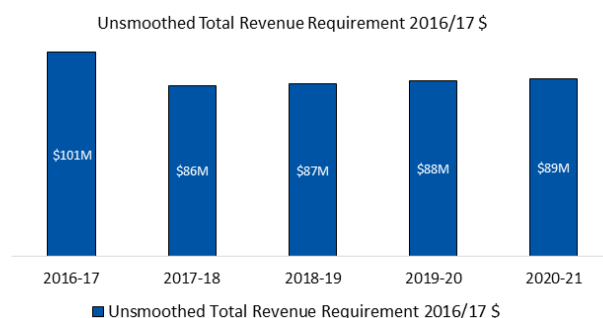
What is happening to bulk water charges?

Lower bulk water services prices

Under our proposal, the cost of NSW Rural Bulk Water Services will reduce in real terms. Over each year of the four year determination period, the cost of NSW Rural

Bulk Water Services paid for by our customers will be 11% lower than that in 2016-17.

Figure 2. WaterNSW's proposed unsmoothed revenue requirement for 2017-2021



These cost reductions are made possible through lower operating costs from operating efficiency reforms driven by the new WaterNSW Management Team, and lower funding costs. We are confident our pricing proposal represents the least cost solution in providing NSW Rural Bulk Water Services to our customers.

Main features of our price proposal

- **Reduced prices.** A lower revenue requirement paid for by customers will result in overall lower prices and bills for NSW Rural Bulk Water Services. High security entitlement customers will see, on average, a decrease in bills of 9 per cent, while general security entitlement customers will see, on average, a decrease in bills of 3 per cent.
- **Lower operating expenditure.** We are proposing an operating expenditure of \$154.9 million for the regulatory period. Our proposed operating expenditure in 2020-21 will be 20% lower in real terms compared to 2016-17.
- **Capital program.** We are proposing to invest \$193.7 million in capital works over the 4 year regulatory period. Our capex program will be focussed on asset renewal and replacement to ensure reliability and capability of our existing assets.

Price structure

- We are not proposing to change the existing price structure for the majority of our customers who have advised us that they wish to retain their current fixed: variable splits and the unders and overs mechanism introduced by the regulator in the previous pricing decision.

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- 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 assist to manage this volatility, we have sought a risk transfer product from the market and have included the cost of this product as part of our proposal.
- In the Fish River, due to the closure of a power station affecting water usage, we have proposed that customers move to an 80:20 fixed: variable split while adjusting the 20 year moving average of water usage for this event.

Water sector reforms

The NSW Government has enabled WaterNSW to carry out certain functions of the Water Administration Ministerial Corporation (WAMC) from 1 July 2016. The prices for these WAMC functions are also set by IPART with new prices starting on 1 July 2016. WaterNSW will bill customers at the IPART determined prices for all WAMC functions.

What happens next?

WaterNSW lodged its pricing proposal with IPART on 30 June 2016. The proposal will be available publicly on IPART's website. The following table provides a high level timetable of the review process as indicated to WaterNSW by IPART.

Activity	Time
Water NSW's pricing proposal due	30 June 2016
IPART releases Issues Paper	Early September 2016
Submissions in response to Issues Paper due	Early October 2016
Public Hearings	Late October 2016
IPART releases Draft Report and Determination	Early March 2017
Submissions in response to the Draft Report due	End March 2017
IPART releases Final Report and Determination	June 2017
New prices take effect	1 July 2017
