

Mr Michael Cosgrave
Executive General Manager
Infrastructure Regulation

Dear Mr Cosgrave,

WaterNSW application to the ACCC for the 16-17 Annual Review of Regulated Charges

Rule 34 of the *Water Charge (Infrastructure Rules) 2010 (Cth)* requires WaterNSW to apply to the Australian Competition and Consumer Commission (ACCC) for approval or determination of the 2016-17 regulated water charges for the NSW Murray Darling Basin valleys. Please find enclosed the information required by the Rules.

The principal objective of this submission is to ensure that the 2016-17 regulated water charges are determined in a manner that is consistent with the ACCC pricing requirements. Detailed information on the application of the Water Charge Rules and the ACCC Final Decision requirements is set out in the attached document.

In addition, WaterNSW has provided the required inputs for the ACCC annual price review model, and has undertaken an analysis of the potential bill impacts on customers for the period 2014-15 to 2016-17. The analysis demonstrates the challenges in maintaining an 'overs-and-unders' mechanism where customers have experienced two consecutive years of low water availability.

WaterNSW, in its application for the 15-16 regulated charges, noted that the adverse price impacts from the formulaic application of the overs-and-unders mechanism are not in the best interests of customers particularly in an environment of low water availability. WaterNSW supports the efforts by the ACCC to review, simplify and improve the Water Charge Rules to facilitate innovative and mutually beneficial commercial outcomes. WaterNSW would like to work closely with the ACCC to ensure a smooth transition from the Water Charge Rules to the IPART pricing framework for the determination of NSW Murray Darling Basin regulated water charges in 2017-18.

Yours sincerely,

David Harris
Chief Executive Officer
WaterNSW

1. Introduction

This document is WaterNSW's application to the Australian Competition and Consumer Commission (ACCC) annual review of regulated charges for the NSW Murray Darling Basin valleys and is submitted to the ACCC for approval pursuant to Division 3 of the *Water Charge (Infrastructure Rules) 2010 (Cth)* (the Rules).

This document, together with the attached ACCC annual price review model, complies with the form and requirements in Rule 34 (2) and includes:

- WaterNSW's forecast of demand for, or consumption of, infrastructure services for the year 2016-17.
- WaterNSW's estimate of demand or consumption during 2015-16.
- Information on how the forecast and estimate were calculated.
- Proposed regulated charges for 2016-17.

The ACCC will assess the information contained in this submission, and in accordance with Rule 37 (2), must not deviate from the charges approved in its 2014-17 Final Decision, except to the extent that it is reasonably necessary to make variations to those charges having regard to:

- Changes in demand or consumption forecasts; and
- Price stability.

WaterNSW submits that it is reasonable necessary for the ACCC to make variations to the 2016-17 water charges it determined in its 2014-17 Final Decision, having regard to changes in demand or consumption forecasts, but only in a manner that is consistent with the pricing mechanisms set out in the 2014-17 Final Decision

2. Proposed regulated water charges for 2016-2017

The ACCC has provided WaterNSW with its annual price review model, which when completed with the required inputs, would give effect to the pricing mechanisms in the ACCC 2014-17 Final Decision, including the adjustments to the 20 year rolling average of water sales and the application of the 'overs-and-unders mechanism. The figures in sections 3-4 of this application have been input into the ACCC annual price review model to calculate the proposed 2016-17 regulated water charges:

Table 1 Proposed Water Charges for 2016-2017

Valley	High Security Charge	General Security Charge	Variable Charge
Border	\$11.15	\$3.92	\$10.66
Gwydir	\$14.17	\$3.48	\$12.16
Namoi	\$17.34	\$8.27	\$20.32
Peel Valley	\$35.33	\$3.89	\$58.36
Lachlan	\$16.51	\$3.29	\$21.17
Macquarie	\$16.23	\$3.63	\$17.02
Murray	\$5.01	\$2.72	\$6.54
Murrumbidgee	\$3.80	\$1.56	\$4.37
Lowbidgee		\$0.84	

Fish River	Access (KL)	Usage < MAQ (\$/KL)	Usage > 200kl (\$/KL)
Raw water - major customers	\$0.36	\$0.42	N/A
Raw water - minor customers	\$71.46	\$0.42	\$0.78
Filtered water - major customers	\$0.69	\$0.78	N/A
Filtered water - minor customers	\$138.32	\$0.78	\$1.47

The estimated bill impacts to customers over the 2014-17 price path is shown below. High security customers in the Lachlan and Macquarie valleys will experience the highest cumulative bill impact of approximately 10 per cent per annum in nominal terms.

Both the Peel Valley and Lowbidgee regulated water charges have been excluded from the analysis. The Peel Valley variable charge is subject to a 10% price cap per annum in real terms, while WaterNSW levies a 100 per cent fixed charge in the Lowbidgee, which is not subject to changes in demand and consumption forecast.

Table 2 Bill impact over the 2014-17 price path

Valley	2016-17 Bill Impact relative to 15-16 charges (60% usage)		2015-16 bill Impact relative to 2014-15 charges (60% usage)	
	High Security	General Security	High Security	General Security
Border	1.37%	3.11%	10.88%	10.09%
Gwydir	1.57%	1.92%	1.33%	-0.44%
Namoi	2.94%	2.98%	0.76%	1.19%
Lachlan	10.49%	7.74%	10.69%	4.26%
Macquarie	10.70%	6.14%	12.72%	8.33%
Murray	3.54%	2.26%	-1.66%	-3.94%
Murrumbidgee	3.59%	1.96%	0.77%	-0.84%

3. Demand forecast for 2016-2017

The 2016-2017 water sales are based on the 20 year rolling average of water usage (including interstate trade usage) for the period 1995-1996 to 2014-15 (two year lag), in accordance with chapter 5 of the 2014-17 ACCC Final Decision. The updated 20 year rolling average of water sales is used to set the variable water charge for 2016-17.

The 2014-15 actual water sales figures were sourced from the WaterNSW Water Accounting System and input into the ACCC annual review pricing model to calculate the 20 year rolling average for the period 1995-1996 to 2014-15. The ACCC annual price review model has calculated the 20 year rolling average of water sales as follows:

Table 3 Water Sales Forecast 2016-2017

Valley	20 year rolling average of water usage (ML)
Border	150,262
Gwydir	266,675
Namoi	167,762
Peel Valley	11,238
Lachlan	214,829
Macquarie	263,576
Murray	1,598,839
Murrumbidgee	1,785,416
Fish River	10,488
Total (excluding Fish River)	4,458,596

As per the 2014-17 ACCC Final Decision, the 20 year rolling average of water sales is not used to set:

- the Peel Valley variable charge, which is instead subject to a 10% price cap per annum in real terms; and
- the Lowbidgee fixed charge, which is not subject to changes in demand and consumption forecast.

2016-2017 licence entitlement estimates have been input into the ACCC annual price review model to set the high security and general security fixed charge. The licence entitlement figures below are based on the latest estimate of billable entitlements in the WaterNSW Water Accounting System as of January 2016:

Table 4 Licence entitlement estimates for 2016-2017

Valley	General Security Entitlements	High Security Entitlements
Border	263,238	3,122
Gwydir	511,609	26,840
Namoi	256,212	8,874
Peel Valley	N/A	N/A
Lachlan	633,256	57,514
Macquarie	632,466	42,707
Murray	2,081,716	261,883
Murrumbidgee	2,267,963	438,331
Lowbidgee	N/A	N/A

4. Demand forecast for 2015-2016 and the revenue volatility allowance

The 2015-2016 water sales forecast is used to determine the estimated revenue shortfall or surplus revenue (whichever is applicable) collected by WaterNSW to the end of 2015-2016. The revenue shortfall or surplus revenue is used to calculate the revenue volatility allowance for WaterNSW, which is added onto, or in the case of surplus revenue is subtracted from, the 2016-2017 total revenue requirement approved by the ACCC in its 2014-17 Final Decision.

The 2015-16 water sales forecast is 34 per cent less than the 20 year rolling average of water sales. The 2015-16 water sales forecast is based on:

- actual usage up to 31 December 2015 (1,443 GL);
- trade volumes out of NSW (relevant for the Border, Murray and Murrumbidgee valleys); and
- a forecast of usage for the period 1 January 2016 to 30 June 2016 (1,405 GL), including a medium forecast for February-June (consistent with current storage levels, a dryer than average rainfall forecast by the BOM, available water within access licences and historical water usage trends).

For Murray Darling Basin Authority (MDBA) and Dumaresq-Barwon Border Rivers Commission Border Rivers Commission (BRC) costs, the revenue volatility allowance is the cumulative revenue shortfall or surplus revenue (whichever is applicable), which is added onto or in the case of a surplus revenue, is subtracted from the 2016-2017 total revenue requirement. The table below outlines the estimated quantum of MDBA and BRC costs under recovered by WaterNSW from the end of 2015-2016, as per the ACCC annual price review model:

Table 5 MDBA BRC costs

Valley	MDBA BRC costs under recovery
Border	(271,311)
Murray	(1,363,192)
Murrumbidgee	(236,197)
Total	(1,870,699)

For WaterNSW costs, the cumulative total revenue shortfall or surplus revenue (whichever is applicable) is the 'overs-and-unders' balance. The 'overs-and-unders' balance is multiplied by the nominal rate of return to calculate the revenue volatility allowance for WaterNSW. This allowance is added onto or in the case of surplus revenue, is subtracted from, the 2016-17 total revenue requirement approved by the ACCC in its 2014-17 Final Decision to set the 2016-17 regulated water charges. The ACCC annual price review model calculations are shown below.

Table 6 WaterNSW costs revenue volatility allowance

Valley	Sales under recovery (\$)	Revenue Volatility Allowance (\$)
Border	(1,032,532)	60,104
Gwydir	(2,432,163)	141,578
Namoi	(3,039,156)	176,912
Peel Valley	N/A	N/A
Lachlan	(1,704,504)	99,221
Macquarie	(5,375,891)	312,935
Murray	(671,727)	39,102
Murrumbidgee	(675,785)	39,338
Lowbidgee	N/A	N/A
Fish River	(4,578,914)	266,542
Total	(19,510,670)	1,135,732