



Australian
Competition &
Consumer
Commission

Information paper on State Water's 2014-17 pricing application

August 2013

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Summary

This information paper summarises State Water's 2014-17 pricing application to the ACCC and is intended to assist stakeholders in understanding the application. It is the first stage of our consultation on State Water's pricing application, and we encourage stakeholders to make a submission to the ACCC on the application. As discussed in section 2 of this paper, the ACCC's pricing principles set out the methodology that we will follow in approving or determining State Water's charges.

Section 3 of this paper provides details of a number of issues raised by State Water's pricing application and includes a valley specific summary of State Water's pricing and expenditure proposals. Key issues raised by State Water's application include:

- A new proposed tariff structure – State Water currently recovers 40 per cent of its costs through fixed charges. Over 2014-17 State Water proposes to change its tariff structure so that 80 per cent of its costs are recovered through fixed charges.
- Proposed charges – State Water's proposed change in tariff structure generally results in increases in fixed charges and decreases in water usage charges. In the main, fixed charges for general security entitlement holders are proposed to increase at a greater rate than fixed charges for high security entitlement holders. This is because State Water proposes to remove the current premium on fixed charges for high security entitlement holders. Water usage charges are proposed to decrease by between 20 and 80 per cent
- A new proposed price control mechanism – State Water has proposed a revenue cap with annual price adjustments and carryover of any shortage or excess revenue between regulatory periods. State Water also proposes a 15 per cent constraint on annual price adjustments.

1 Section 1

1.1 Purpose

On 30 July 2013 State Water submitted a bulk water pricing application to the ACCC covering the regulatory period from 1 July 2014 to 30 June 2017. We, the ACCC, are responsible under the Water Act 2007 (Cwlth) and the Water Charge (Infrastructure) Rules 2010 (WCIR) for approving or determining State Water's charges over the regulatory period.

This information paper is intended to assist interested parties in understanding State Water's pricing application. We have provided information on areas where State Water is proposing a new approach to its tariff structure and the method for setting charges and have summarised the pricing, revenue and expenditure outcomes proposed by State Water. We have included some questions for stakeholders that will help our understanding and analysis of the issues. However, we also recognise that stakeholders may have other issues relevant to the ACCC's regulatory functions that they would like to raise with us, and we encourage stakeholders to raise such issues in their submissions. State Water's application can be found on the ACCC's website at <http://transition.accc.gov.au/content/index.phtml/itemId/1085557>.

1.2 Consultation approach

The ACCC will undertake a comprehensive and transparent consultation process as part of our review of State Water's charges.

As a first step in response to State Water's application, we welcome written submissions on the application that are relevant to our regulatory functions under the WCIR. We have provided more information on our regulatory role and how the ACCC will assess State Water's application in section 2.1.

In addition to considering written submissions we will also engage with State Water's Customer Service Committees (CSC), and other stakeholders that would like to meet with ACCC staff, and discuss State Water's application. State Water has established valley-based CSC to facilitate customer consultation processes.¹ Other Stakeholders may also want to discuss State Water's application with us. Please email statewaterreview@acc.gov.au if you would like to request a meeting with ACCC staff.

The ACCC will hold public forums after the release of our Draft Decision. These forums will be structured to provide information about the ACCC's Draft Decision and to facilitate feedback on the Draft Decision. Details of public forums will be made available on the ACCC's website and advertised in the press.

1.2.1 Process for making a submission

Interested parties are invited to provide written submissions to the ACCC by close of business **Friday 13 September 2013**. Submissions are preferred by email, in Microsoft Word or other text readable document form and can be sent to statewaterreview@acc.gov.au.

¹For more information on CSC please see State Water's website, <https://www.statewater.com.au/Customer%20service/Customer%20service%20committees>.

Alternatively, submissions can be mailed to:

Mr Sebastian Roberts
General Manager - Water Branch
ACCC
GPO Box 520
MELBOURNE VIC 3001

The ACCC prefers that all submissions be in an electronic format and publicly available, to facilitate an informed, transparent and robust consultation process. Accordingly, submissions will be treated as public documents and posted on the ACCC's website, www.accc.gov.au, except and unless prior arrangements are made with the ACCC to treat the submission, or portions of it, as confidential. Parties wishing to submit confidential information are requested to:

- clearly identify the information that is the subject of the confidentiality claim; and
- provide a non-confidential version of the submission.

1.3 ACCC review process

Over 2013-14 we will review State Water's application and come to a decision on whether to accept the charges in the application or, if not, determine different charges. After we consider stakeholder feedback regarding the application and undertake our own analysis we will publish a Draft Decision for comment. After considering feedback on the Draft Decision we will publish the Final Decision on State Water's charges. Milestones and indicative timings for the review are set out below.

Table 1.1 Pricing review – milestones and indicative timeframe

30 July 2013	Receive State Water's application and call for submissions
13 September 2013	Closing date to receive submissions on State Water's application
February 2014	ACCC Draft Decision and call for submissions
April 2014	Closing date to receive submissions on ACCC Draft Decision
June 2014	ACCC Final Decision ²

² Under the WCIR the ACCC has 13 months from the date it receives State Water's pricing application to approve or determine its regulated charges.

2 Section 2

2.1 Who is State Water?

State Water is the rural bulk water infrastructure operator in New South Wales (NSW). State Water owns, maintains, manages and operates major infrastructure to store and deliver bulk water to approximately 6,300 licensed water users. Historically, this has involved the delivery of an average 5,500 GL of water annually.³ Customers range from individual irrigators to large irrigation infrastructure operators, council town water suppliers, electricity generators and environmental water holders.

State Water's bulk water delivery services in the NSW Murray-Darling Basin (MDB) are provided in the Fish River water supply area, the Lowbidgee Flood Control and Irrigation District and in the following eight valleys:

- Border
- Gwydir
- Namoi
- Peel
- Lachlan
- Macquarie
- Murrumbidgee
- Murray

³ See State Water's website for more information, <https://www.statewater.com.au/>.

infrastructure services, including costs incurred in complying with regulatory obligations and requirements.⁵

The ACCC's 'Pricing principles for price approvals and determinations under the WCIR – July 2011' (ACCC's water pricing principles) sets out in detail our approach to regulating water charges in the MDB. The WCIR and the pricing principles are available on our website, at <http://transition.accc.gov.au/content/index.phtml/itemId/1085557>.

Section 2.2.1 of this paper provides a summary of how we will assess State Water's application including our approach to the assessment of State Water's costs in each valley it services. The ACCC, after considering submissions received in response to State Water's application, must prepare a draft of an approval or determination and publish this on its website. The draft must include reasons for the decision and invite interested parties to make a submission. After consideration of these submissions, the ACCC must approve or determine State Water's regulated charges.⁶ Under the WCIR the ACCC has 13 months from the date it receives State Water's pricing application to approve or determine its regulated charges.

State Water's bulk water supply charges in the MDB were previously regulated by the NSW Independent Pricing and Regulatory Tribunal (IPART). Charges for services in State Water's areas of operation in NSW outside the MDB will still be regulated by IPART. Charges for these customers will remain unchanged for 2 years, from 1 July 2013 to 30 June 2015, or until IPART makes a new determination of prices.

In the Fish River water supply area, which is part of the MDB, we have responsibility for regulating State Water's charges for Delta Electricity and approximately 278 smaller customers that use water for domestic purposes. IPART will continue to regulate charges in the Fish River water supply area for Lithgow City Council, Oberon Council and the Sydney Catchment Authority. Charges for these customers will remain unchanged for 2 years, from 1 July 2013 to 30 June 2015, or until IPART makes a new determination.

Unlike previous regulatory periods, State Water's proposed charges for the 2014-17 regulatory period do not include the pass-through of costs associated with the Murray-Darling Basin Authority (MDBA) and Dumaresq-Barwon Borders River Commission (BRC).

State Water's costs are partly funded by the NSW Government under a cost sharing arrangement previously established by IPART. This arrangement will continue in the 2014-17 regulatory period. The ACCC will approve or determine charges to recover the users' share of State Water's costs in this period.

Prices for the Peel valley do not include a community service obligation subsidy previously provided by the NSW Government. State Water has calculated prices on this basis as the NSW Government has not yet advised State Water of future operating subsidies for the Peel valley.

⁵ Water Charge (Infrastructure) Rules 2010, s. 29.

⁶ Water Charge (Infrastructure) Rules 2010, ss. 28 and 30.

2.2.1 How the ACCC assesses State Water's application

The ACCC's water pricing principles set out the methodology that the ACCC will follow in approving or determining State Water's charges.

In its application, State Water has presented its proposed regulatory charges, based on its proposed required revenue from regulated charges to cover its costs. The ACCC cannot accept these charges unless it is satisfied that:

- the regulatory asset base is calculated according to the objectives and principles in Schedule 2 of the WCIR; and
- State Water's total forecast revenue is reasonably likely to meet the prudent and efficient costs of providing infrastructure services; and
- the forecast revenue from regulated charges is reasonably likely to meet that part of the prudent and efficient costs of providing infrastructure services that is not met from other revenue.⁷

If the ACCC is not satisfied that State Water's proposed charges will satisfy these conditions it must determine charges that will. In approving or determining charges the ACCC must have regard to the Basin water charging objectives and principles set out in Schedule 2 of the Water Act.⁸

To approve or determine charges, we first assess the total revenue State Water needs to provide water infrastructure services.

In assessing and determining State Water's total revenue, we use a 'building block' approach. For State Water the main building block components comprise:

- a return on the projected capital base, incorporating:
 - the capital base—the value of the business' capital assets needed to provide water infrastructure services (e.g. dams, weirs and IT systems)
 - capital expenditure—how much the business will need to spend on new assets during the upcoming regulatory period
 - a rate of return on assets—what the business needs to finance its capital assets.
- regulatory depreciation of the projected capital base—an allowance to compensate the business for the decreasing value of their assets over time.
- operating expenditure —an allowance for operating, maintenance and other non-capital costs incurred in providing water infrastructure services.

Summed together these 'building blocks' allow for the required revenue. Total revenue should be sufficient to ensure State Water can cover the efficient costs it incurs in providing water infrastructure services. In considering the revenue required by State Water we will review operating and capital expenditure, and required revenue, on a valley-by-valley basis.

⁷ Water Charge (Infrastructure) Rules 2010, s. 29.

⁸ Water Charge (Infrastructure) Rules 2010, s. 29.

In reviewing operating costs, as stated in the ACCC's water pricing principles, we assess matters such as:

- the prudence and efficiency of operating expenditure
- the reasons and evidence supporting changes to service standards in the next regulatory period
- the reasons and evidence supporting changes to operating expenditure in the next regulatory period
- reasonable productivity improvements in providing services over the next regulatory period.

In reviewing capital costs, as stated in the ACCC's water pricing principles, we assess matters such as:

- the prudence and efficiency of capital expenditure
- the reasons and evidence supporting the commencement of new major capital expenditure projects in the next regulatory period, including whether such projects are efficient long term expenditure on infrastructure services.
- the reasons and evidence supporting levels of capital expenditure in the next regulatory period
- whether the timeframe for delivering the proposed capital expenditure program is reasonable, having regard to State Water's delivery of capital expenditure projects in the past, and
- whether the asset management and planning framework of State Water reflects best practice.

In approving or determining charges, we also consider water extraction forecasts, and forecasts on the volume of entitlements. The forecasts of water demand impact on the level of prices.

In approving or determining charges, we also consider whether the proposed regulated charges, including the tariff structures, will contribute to achieving the Basin water charging objectives and principles.⁹ These objectives and principles are reflected in the ACCC's pricing principles for water, which state that tariff structures should:

- promote the economically efficient use of water infrastructure
- ensure sufficient revenue streams to allow efficient delivery of the required services
- give effect to the principles of user pays in respect of water storage and delivery in irrigation systems
- achieve pricing transparency, and
- facilitate efficient water use and efficient functioning of water markets.

⁹ Water Act 2007, Schedule 2, <http://www.comlaw.gov.au/Details/C2007A00137/Html/Text#param339>.

3 Section 3

3.1 Summary information on State Water's pricing application

The following provides a summary of State Water's pricing application. It describes how State Water is proposing to change its tariff structures and price control mechanism. It also provides a summary of State Water's proposed pricing, revenue and expenditure outcomes, and includes some questions for stakeholders. A valley specific summary of State Water's application is provided in section 3.2.

Chapter 17 of State Water's pricing application sets out the consultation process it undertook with its customers in preparing its application and canvassing changes to pricing arrangements for the 2014-17 regulatory period. The ACCC is interested in stakeholder views on the effectiveness of State Water's consultation process.

Questions for stakeholders:

- Was the consultation State Water undertook regarding its pricing application adequate, particularly in terms of communicating the nature of the proposed changes to pricing arrangements and the need for the changes?
- Is there other information that should be made available by State Water or the ACCC that would assist with consultation on State Water's pricing application?

3.1.1 What are the key changes in State Water's pricing application?

State Water has proposed a new fixed to variable tariff ratio and a new form of regulatory control. State Water comments in its application that the proposed price control mechanism and tariff structure "operate together and reinforce each other to mitigate the risk of revenue volatility whilst minimising price shocks and other impacts on customers where possible."¹⁰

These new approaches are summarised below, however more details about the proposed changes and State Water's reasons for the proposals are available in State Water's application.

As the form of control and tariff design proposed by State Water is a departure from previous practice we are interested in how these proposals might impact on stakeholders. To assist in this we have included questions in this section for interested stakeholders to respond to in submissions on State Water's application.

Tariff structure

State Water is proposing to transition over the 2014-17 regulatory period to a structure in which 80 per cent of revenue is collected through fixed charges (that is, a charge that is levied irrespective of the volume of water delivered to customers) and 20 per cent of revenue is collected through usage charges. This is referred to as an 80:20 fixed to variable ratio.

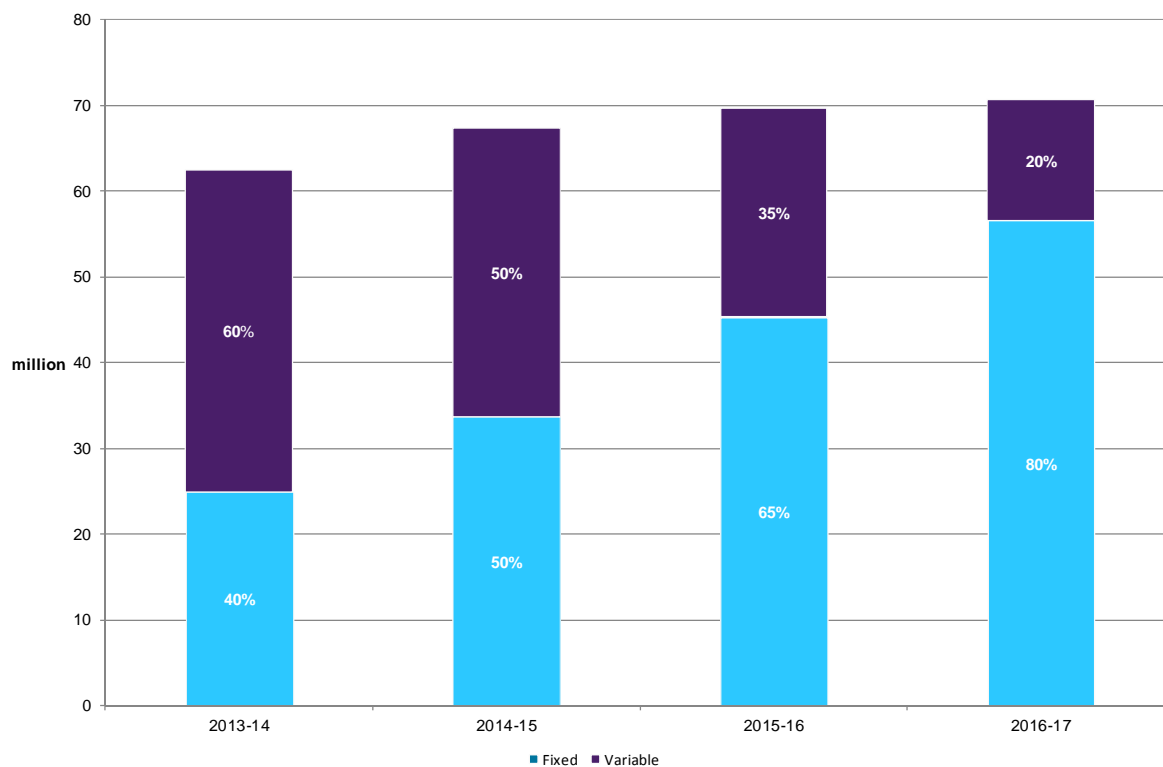
This differs from the current fixed to variable ratio, where 40 per cent of revenue is collected through fixed charges and 60 per cent of revenue is collected through usage charges (a 40:60 fixed to

¹⁰ *State Water's pricing application to the Australian Competition and Consumer Commission for regulated charges to apply from 1 July 2014, June 2013, page 129.*

variable ratio). The current 40:60 fixed to variable ratio was decided in IPART’s 2006 Determination and has been applied since 2009-10.

State Water is proposing a transition path to move to this new fixed to variable ratio, as illustrated in chart 3.1.

Chart 3.1 State Water's proposed change to the proportion of revenue recovered through fixed and variable charges (\$2013-14)



Note: 2013-14 is the IPART approved revenue and excludes MDBA and BRC cost recovery.

In its application State Water states that “a tariff structure that more closely aligns with its largely fixed cost structure (cost reflective tariffs) is the most efficient way for State Water to ensure it is able to finance its operations in the face of uncertain demand”.¹¹ State Water also states that the current 40:60 ratio results in a high risk of revenue under-recovery as a result of volatility in water availability and/or demand.

State Water’s proposed change in tariff structure generally results in increases in fixed charges and decreases in water usage charges. In the main, fixed charges for general security entitlement holders are proposed to increase at a greater rate than fixed charges for high security entitlement holders. This is because State Water proposes to remove the current premium on fixed charges for high security entitlement holders. Water usage charges are proposed to decrease by between 20 and 80 per cent. Section 3.2 of this paper provides a valley-by-valley breakdown of the charges and the extent to which charges would increase or decrease under State Water’s price application.

¹¹ State Water Corporation, *Pricing application to the Australian Competition and Consumer Commission for regulated charges to apply from 1 July 2014*, June 2013, page 130.

When assessing State Water's proposed new tariff structure we will apply the WCIR and have regard to a range of matters including:

- the Basin water charging objectives and principles set out in Schedule 2 of the Water Act
- the ACCC's water pricing principles¹²
- how the risk of uncertain water availability and demand would be allocated under the new tariff structure and the impact of this change
- price impacts on customers, and
- the proposed timing for the transition to a new tariff structure.

State Water is also proposing to alter the method to elevate high security entitlement charges. The current high security entitlement charge is calculated as follows:

$$\text{high security entitlement charge} = \text{general security entitlement charge} \times (\text{conversion factor} \times \text{high security premium})$$

State Water is proposing to remove the high security premium that was added to the charge during the 2010-14 regulatory period, and revert back to solely using conversion factors as determined by IPART in 2006. The conversion factors are intended to reflect the value of high security entitlements relative to general security entitlements. State Water believes that the additional high security premium is no longer appropriate given the proposed transition to cost reflective tariffs. State Water's proposed conversion factors to apply to the high security charge are outlined in table 3.1.

Table 3.1 State Water's proposed valley conversion factors

Valley	Conversion factor
Border	1.28
Gwydir	1.81
Namoi	1.25
Peel	6.73
Lachlan	2.45
Macquarie	1.88
Murray	1.25
Murrumbidgee	1.63

¹² <http://transition.accc.gov.au/content/index.phtml/itemId/1085557>.

Questions for stakeholders:

- Has State Water, in its pricing application and through its previous consultation with stakeholders, made an acceptable case for its proposed change to its tariff structures?
- What would be the implications of a move to higher fixed charges and lower usage charges?
- Is a move to State Water's proposed 80: 20 fixed to variable ratio within a three year regulatory period appropriate or would a more gradual change over a longer period enable a smoother transition?
- Would this proposed change impact on:
 - the volume of water access entitlements held by irrigators and other customers of State Water (e.g. council town water suppliers, electricity generators, environmental water holders)?
 - decisions to use water? (i.e. would it change the amount of water ordered on an annual basis from State Water?)
 - the type of water access entitlements held? (that is, the volume of high and general security entitlements held).
- Do you consider State Water's proposed valley conversion factors used to escalate high security entitlement charges to be reasonable?
- Is there an alternative method to escalating the high security charge that is likely to be more accurate than the method proposed by State Water?

Price control mechanism

State Water proposes the following form of price control for each of its valleys:

- Revenue cap with annual price adjustments and carryover of any shortage or excess revenue between regulatory periods;
- A 15 per cent rebalancing constraint on annual price adjustments.

State Water proposes this form of price control for all valleys.

State Water is proposing this form of price control, to work together with the proposed new tariff structure of an 80:20 fixed to variable ratio, to "mitigate the risk of revenue volatility whilst minimising price shocks and other impacts on customers."¹³ State Water also state in its pricing application that "its commercial viability is at risk due to the mismatch between the variability of State Water's revenue and costs."¹⁴

Currently State Water is regulated by IPART under a price cap with no carry over mechanism. Under this form of control prices for State Water were set for each year of the regulatory period based on the

¹³ *State Water Corporation, Pricing application to the Australian Competition and Consumer Commission for regulated charges to apply from 1 July 2014, June 2013*, page 129.

¹⁴ *Ibid.*

smoothed revenue requirement and forecast water usage and entitlements for each valley. Prices were adjusted annually by the March consumer price index. Under the current price cap mechanism no adjustments are made for any under or over recovery of revenue as a result of actual usage differing from forecast. Under State Water's current price cap if water usage is greater than forecast State Water will receive a revenue surplus. If water usage is less than forecast State Water will receive a revenue shortfall.

Under the revenue cap proposed by State Water, if the revenue requirements are not met or exceeded within the year, State Water would be able to increase or decrease its prices in the following year to enable it to meet its required revenue. State Water is proposing that any increase or decrease in prices should be capped at 15 per cent in any given year. This is intended to create a balance between the need to minimise price shocks for customers and facilitate cost recovery for State Water.

State Water also proposes a carryover mechanism between each regulatory period to ensure neither State Water nor its customers is disadvantaged by the 15 per cent cap on price movements. This will allow State Water to recover or pay back any under or over recovery of revenue in future regulatory periods.

A hypothetical example of how State Water's form of price control may operate in practice for a particular valley over the 2014-17 regulatory period is provided below.

A hypothetical example of State Water's proposed form of control

In year 1 of the 2014-17 regulatory period actual water used is less than forecast. This results in a revenue shortfall for State Water.

To recover the revenue shortfall charges would need to increase by more than 15 per cent in year 2. However, as State Water cannot increase charges by more than 15 per cent each year, charges for year 2 are set at 15 per cent greater than the charges originally determined for year 2.

In year 2 water usage is marginally greater than forecast. This provides State Water with a small revenue gain for year 2, but overall a revenue shortfall for years 1 and 2 combined (because of the 15 per cent price constraint applied and the marginal increase in water usage in year 2).

In year 3, State Water is allowed to levy charges greater than the charges originally determined for year 3 (but not by more than 15 per cent) to recover the outstanding revenue deficit carried over from years 1 and 2. However, in year 3 actual water used is significantly greater than forecast, resulting in a net revenue surplus for the three year regulatory period compared to allowed revenue.

In the next regulatory period (2017-21), charges would be less than they otherwise would be to account for the revenue surplus accrued by State Water in the 2014-17 regulatory period.

Questions for stakeholders:

- Has State Water, in its pricing application and through previous consultation with stakeholders made an acceptable case for its proposed shift from annual price caps to revenue cap regulation where prices could go up or down by no more than 15 per cent each year?
- How do you view the proposed shift to a revenue cap by State Water, where prices could go up or

down in a given year depending on water availability and usage in a previous year?

- If prices were able to go up or down on an annual basis, would a cap of 15 per cent on annual price changes be acceptable? If not, what percentage change in annual price changes would be acceptable under a revenue cap arrangement?

3.1.2 What are State Water's proposed charges over the next regulatory period?

State Water's proposed charges for regulated valleys

State Water proposes a \$ per ML of entitlement charge on both high and general security entitlements (see table 3.2 and 3.3 below). These are referred to as fixed charges. State Water also proposes to levy a usage charge on a \$ per ML of water (see table 3.4 below). This is referred to as the usage charge, and is the same charge for high and general security entitlement holders.

State Water proposes the following charges for regulated valleys over the 2014-17 regulatory period. Charges for 2013-14 are included in the table for comparison purposes.¹⁵ For more information on charges for each valley, please see section 3.2.

Table 3.2 State Water's proposed high security entitlement charges (\$/ML) (\$2013-14)

	2013-14 (current*)	2014-15	2015-16	2016-17
Border***	11.45	4.18	5.37	6.55
Gwydir	14.55	8.95	12.32	16.04
Namoi	16.22	14.58	19.06	23.59
Peel**	25.19	37.63	51.79	67.48
Lachlan	12.36	12.57	17.52	23.14
Lowbidgee	na	na	na	na
Macquarie	11.42	10.42	14.73	19.72
Murray	3.14	1.84	2.36	2.86
Murrumbidgee	2.98	2.99	3.89	4.79

*Source: IPART 'Review of Bulk water charges for State Water Corporation, Water – Determination' June 2010.

**Charges for the Peel valley in 2013-14 account for a subsidy by the NSW Government. Proposed charges for the 2014-17 regulatory period do not. See section 3.2.4 for more information.

***Charges for the Border valley for 2015-16 and 2016-17 have been amended due to a calculation error in State Water's 2014-17 pricing application.

¹⁵ Charges for 2013-14 include MDBA and BRC cost recovery. Proposed charges for 2014-17 do not incorporate these costs.

Table 3.3 State Water's proposed general security entitlement charges (\$/ML) (\$2013-14)

	2013-14 (current*)	2014-15	2015-16	2016-17
Border***	3.21	3.26	4.20	5.11
Gwydir	4.06	4.95	6.81	8.86
Namoi	9.09	11.66	15.24	18.87
Peel**	2.77	5.59	7.70	10.03
Lachlan	4.42	5.13	7.16	9.44
Lowbidgee	na	1.02	0.93	0.85
Macquarie	4.24	5.54	7.83	10.49
Murray	2.33	1.47	1.88	2.29
Murrumbidgee	1.59	1.83	2.39	2.94

*Source: IPART 'Review of Bulk water charges for State Water Corporation, Water – Determination' June 2010.

**Charges for the Peel valley in 2013-14 account for a subsidy by the NSW Government. Proposed charges for the 2014-17 regulatory period do not. See section 3.2.4 for more information.

***Charges for the Border valley for 2015-16 and 2016-17 have been amended due to a calculation error in State Water's 2014-17 pricing application.

Table 3.4 State Water's proposed usage charges (\$/ML) (\$2013-14)

	2013-14 (current*)	2014-15	2015-16	2016-17
Border***	9.43	6.28	4.35	2.46
Gwydir	12.97	11.95	8.85	5.36
Namoi	19.98	19.88	14.00	8.04
Peel**	41.61	74.34	55.09	33.33
Lachlan	18.04	18.20	13.67	8.39
Lowbidgee	na	3.16	2.22	1.26
Macquarie	13.98	14.68	11.18	6.96
Murray	4.97	2.46	1.69	0.96
Murrumbidgee	3.78	3.16	2.22	1.26

*Source: IPART 'Review of Bulk water charges for State Water Corporation, Water – Determination' June 2010. **Charges for the Peel valley in 2013-14 account for a subsidy by the NSW Government. Proposed charges for the 2014-17 regulatory period do not. See section 3.2.4 for more information.

***Charges for the Border valley for 2015-16 and 2016-17 have been amended due to a calculation error in State Water's 2014-17 pricing application.

State Water is also proposing changes to its metering charges. Over the 2014-17 regulatory period State Water proposes to levy metering service charges based on:

- meter size
- whether meters are on regulated sources or groundwater or unregulated sources
- whether meters are Commonwealth-funded or funded by State Water, and
- whether or not meters are fitted with telemetry.

Details of the proposed changes to metering charges are set out in State Water's pricing application.

3.1.3 What is State Water's approach to forecasting demand?

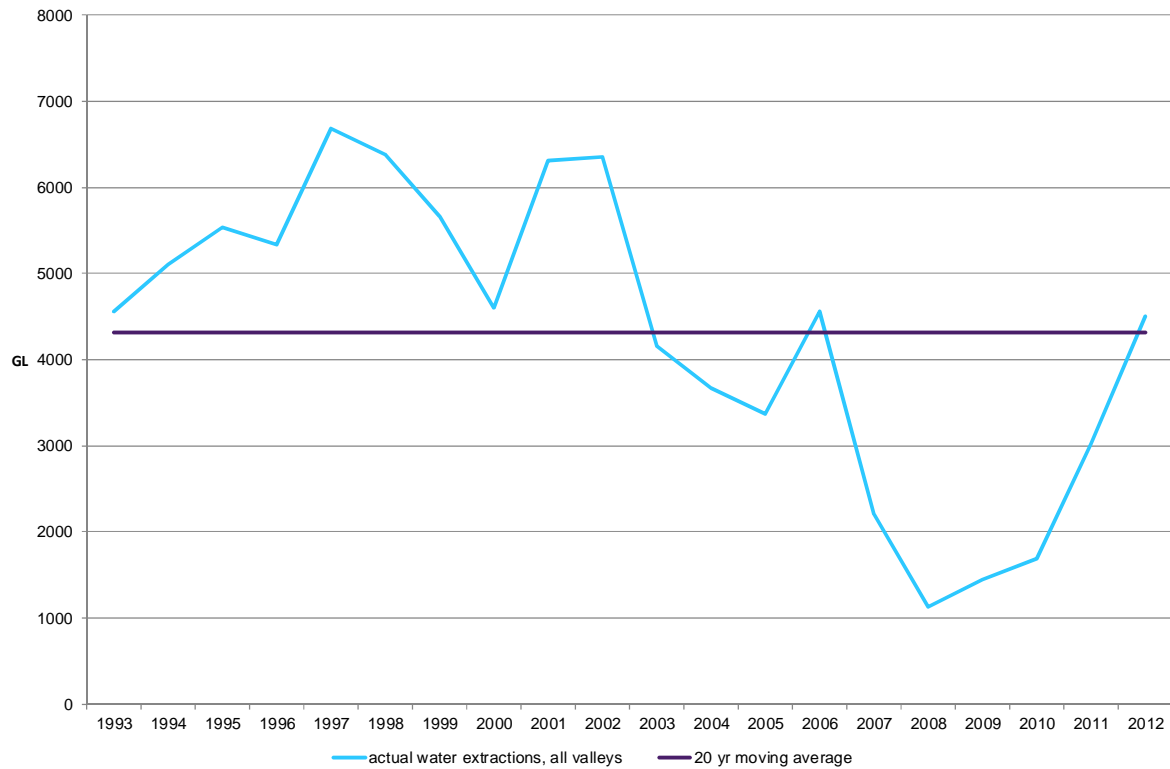
State Water is proposing a yearly demand forecast for the next three years based on the 20 year moving average of past water extractions for each valley it services. This is consistent with the forecasting method used by IPART in its 2010 Determination.

The state-wide 20 year average for all valleys serviced by State Water (excluding Fish River) for 1992-93 to 2011-12 is 4,312 GL. State Water will update the 20 year average to include the 2012-13 water year when this data is available. The chart below shows the 20 year moving average consumptive demand forecast by IPART in 2010 and actual demand over those years.

Questions for stakeholders:

- Do you consider State Water's future water demand forecast, based on the average of water extractions over the past 20 years in each valley it services, to be reasonable?
- Is there an alternative method of forecasting future water demand that is likely to be more accurate than the method proposed by State Water?

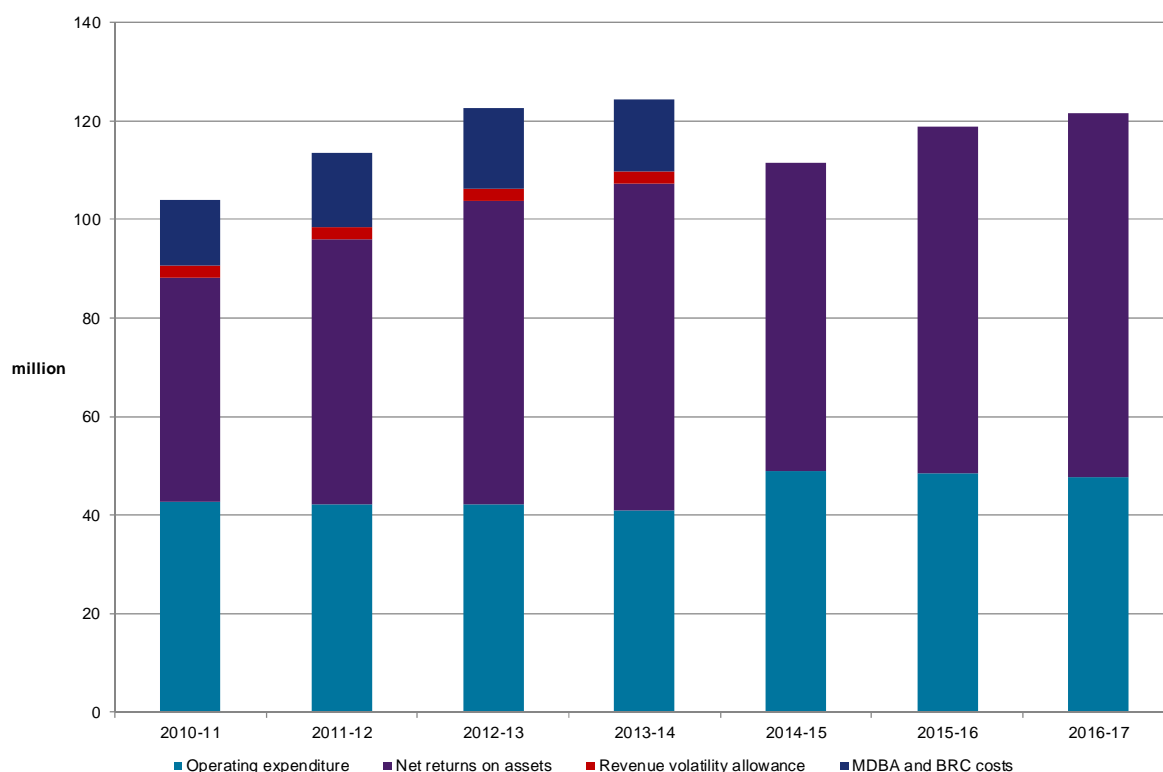
Chart 3.2 State Water’s actual water extractions and the 20 year moving average as at 2011-12, all valleys



3.1.4 How much revenue is State Water proposing to recover from regulated charges?

State Water proposes an average annual increase in regulated revenue of 3 per cent, or \$3.4 million. This is an increase from \$111.41 million in 2013-14 to \$121.54 million in the final year of the 2014-17 regulatory period. State Water’s proposed revenue requirement divided into its relevant building block components is shown in chart 3.3.

Chart 3.3 State Water's building block revenue requirements under IPART and its proposed requirements for 2014-17 (\$2013-14), all valleys



Note: Includes user and government shares.

State Water's revenue requirement is divided between users and the NSW Government according to the cost sharing ratios that were set by IPART in its 2010 Determination. The cost sharing ratios set by IPART are based on an impactor pays principle, whereby costs associated with operating and capital expenditure are allocated to users according to the contribution they make to the costs of activities being incurred. These ratios vary between capital and operating expenditure activity categories, as follows¹⁶:

Table 3.5 IPART's decision on percentage user share of operating and capital expenditure

Activity	User share
Operating expenditure	
Customer support	100 per cent
Customer billing	100 per cent
Metering and compliance	100 per cent
Water delivery and other operations	100 per cent
Flood operations	50 per cent

¹⁶ The ratios apply to all valleys, except Fish River, which is 100 per cent user share for all activities.

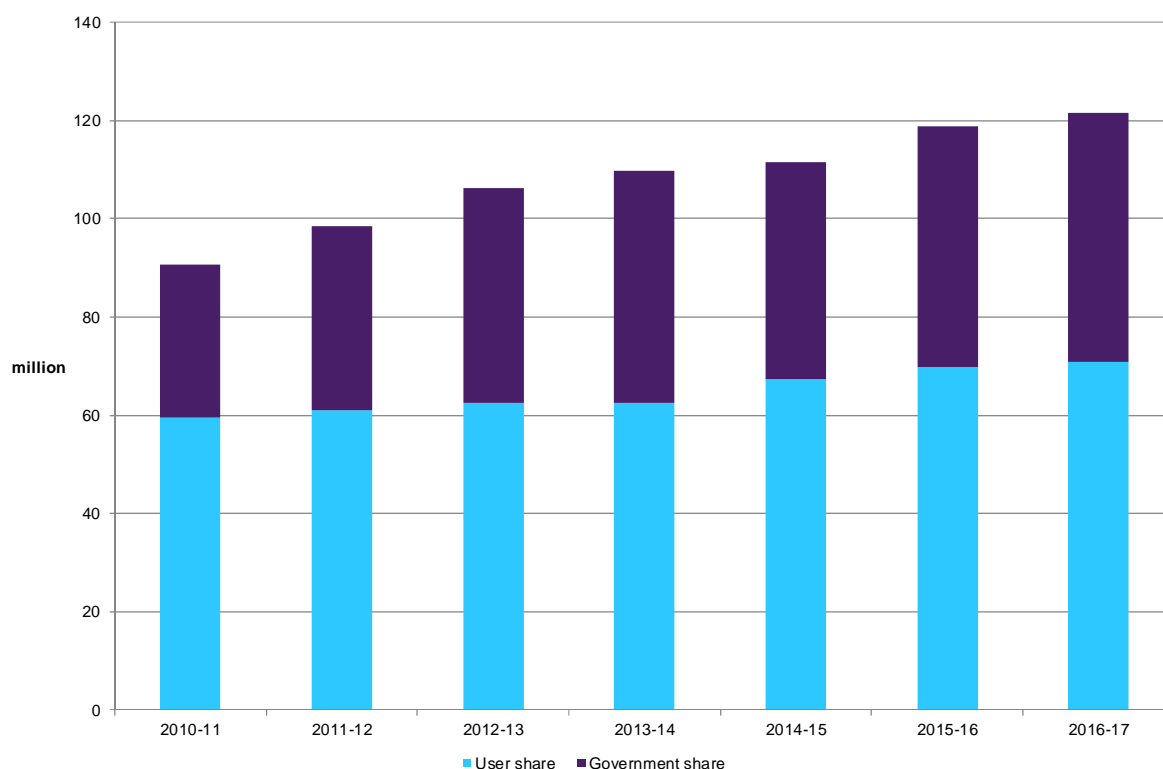
	Hydrometric monitoring	90 per cent
	Water quality monitoring	50 per cent
	Corrective maintenance	100 per cent
	Routine maintenance	100 per cent
	Asset management planning	100 per cent
	Dam safety compliance capital projects pre-1997	0 per cent
	Dam safety compliance	50 per cent
	Environmental planning and protection	50 per cent
	Insurance	100 per cent
Capital expenditure		
	Asset management planning	100 per cent
	Routine maintenance	100 per cent
	Dam safety compliance capital projects pre-1997	0 per cent
	Dam safety compliance	50 per cent
	Renewal and replacement	90 per cent
	Structural and other enhancement	100 per cent
	Corporate systems	100 per cent
	Environmental planning and protection	50 per cent
	Flood operations	50 per cent
	Office accommodation capital projects	100 per cent
	Information management projects	100 per cent
	River channel protection works	50 per cent
	Water delivery and other operations	100 per cent
	Hydrometric monitoring	100 per cent

Note: Some activity codes have not been used to set prices for the 2010 Determination.

Source: IPART Review of bulk water charge for State Water Corporation, from 1 July 2010 to 30 June 2014, page 108.

Over the 2014-17 regulatory period the level of costs borne by the NSW Government would increase relative to the level of costs borne by customers, based on expenditure in the activity categories of State Water's proposed operating and capital expenditure for this period. This is shown in chart 3.4.

Chart 3.4 Government and user shares of revenue under IPART and State Water's proposed revenue requirements for 2014-17 (\$2013-14), all valleys



Note: Revenue requirements associated with the MDBA and BRC costs have been excluded from the years 2010-14 for comparability with the 2014-17 regulatory period.

The user share (the amount to be recovered from customers through State Water's regulated charges) increases by \$2.4 million per year on average, or 3.7 per cent, over the 2014-17 regulatory period compared to average annual revenue in the current (2010-14) regulatory period.

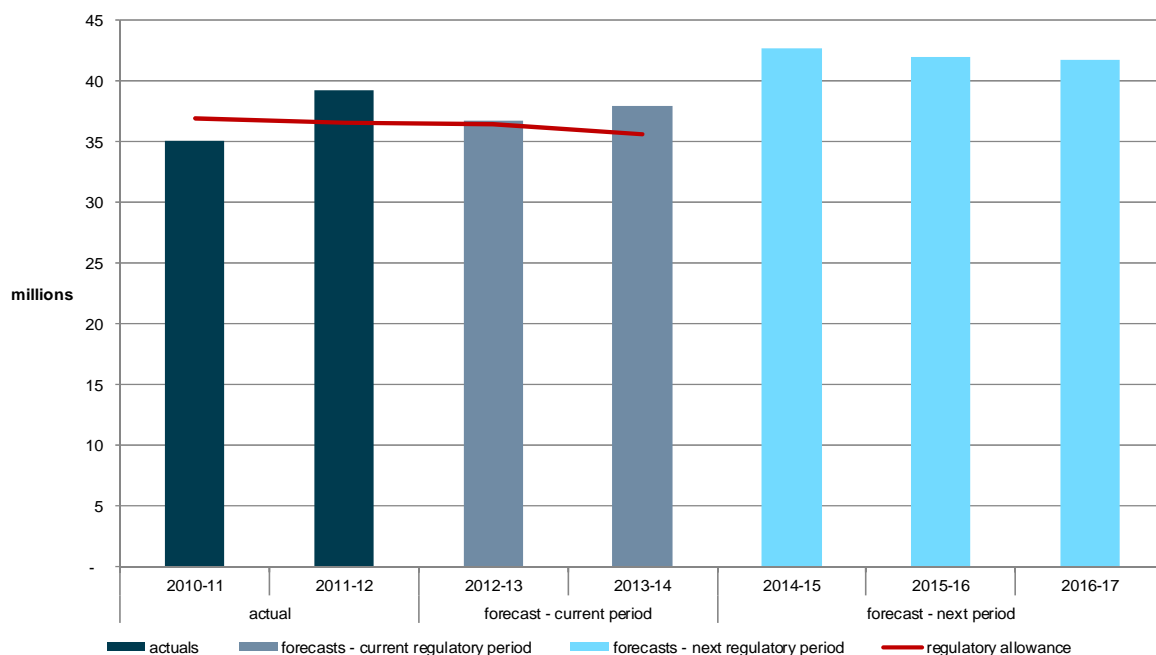
What are the expenditure items influencing this required revenue?

State Water proposes operating expenditure in the MDB to total \$126.48 million in the 2014-17 regulatory period. In real, annual average terms this is a 13 per cent increase from the annual average of actual and forecast operating expenditure in the current 2010-14 regulatory period.

The major areas of operating expenditure proposed for the next regulatory period are routine maintenance (\$31.15 million) and water delivery and other operations (\$25.17 million).

Chart 3.5 below shows that State Water's actual and forecast operating expenditure in the current 2010-14 regulatory period is closely aligned with IPART's regulatory allowance for operating expenditure. It also shows State Water's proposed increase in operating expenditure for the 2014-17 regulatory period.

Chart 3.5 State Water's actual, forecasts for 2012-14 and proposed operating expenditure for 2014-17 (\$2013-14)

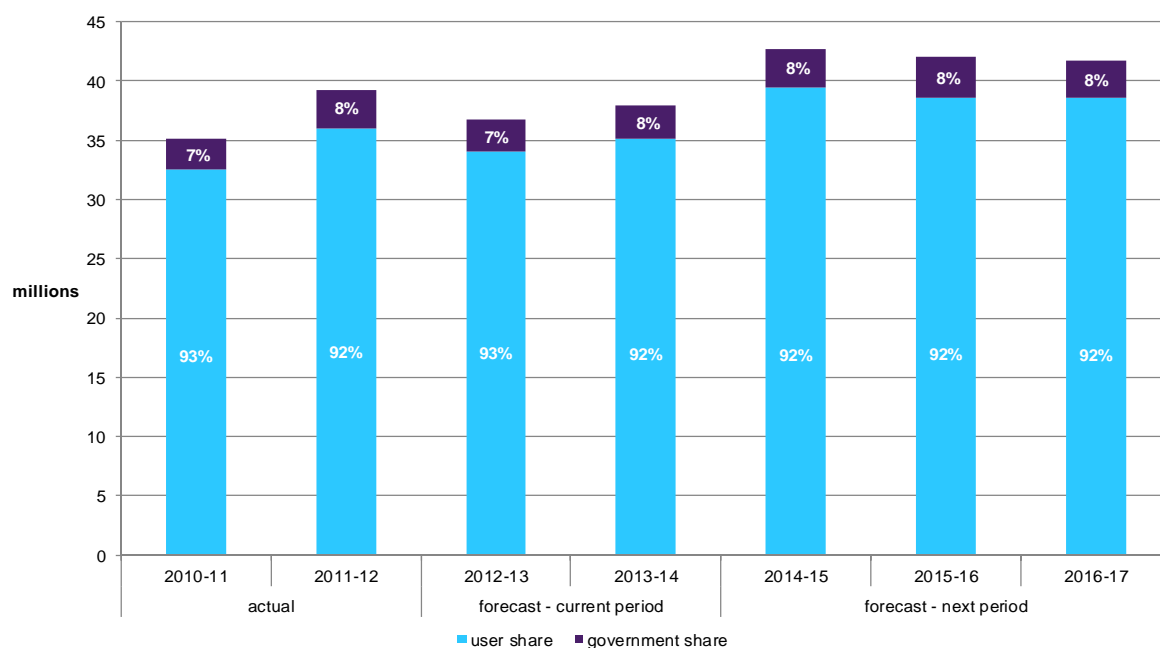


Note: MDB valleys only

The cost of activities associated with operating expenditure for the 2014-17 regulatory period will be allocated between users and the NSW Government according to the ratios set by IPART in its 2010 Determination.

Chart 3.5 shows that the majority of operating expenditure (i.e. generally 92%), in both the current (2010-14) and next regulatory period (2014-17), is allocated to the user and recovered through regulated charges.

Chart 3.6 Government and user shares of operating expenditure (\$2013-14)



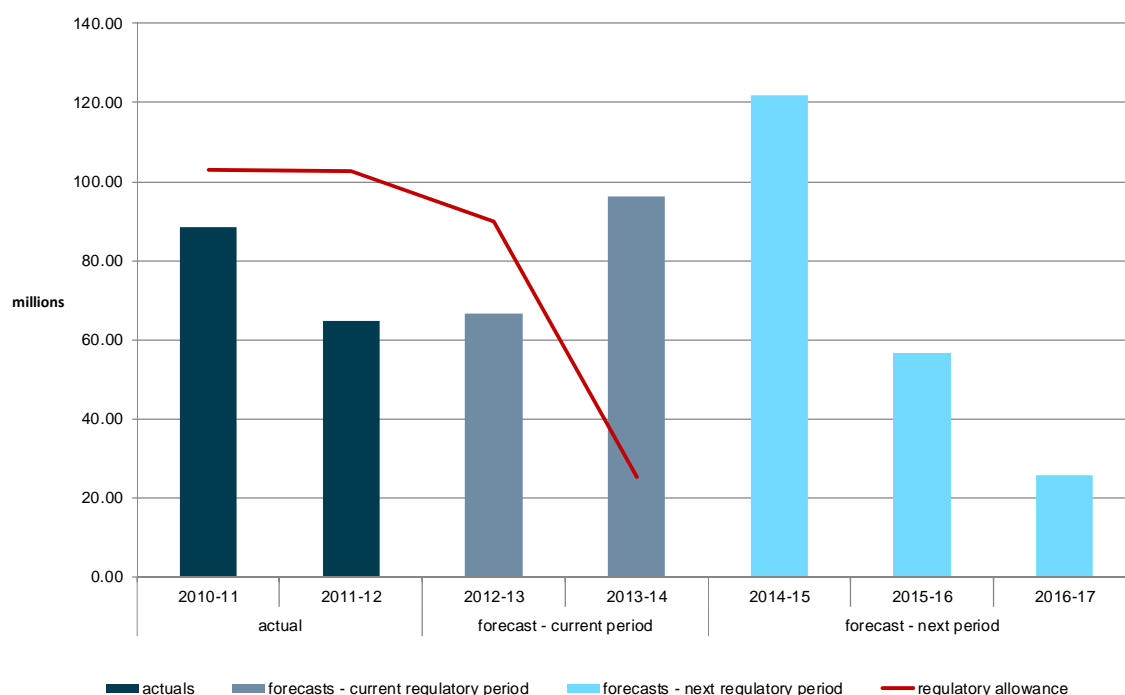
Note: MDB valleys only.

State Water proposes capital expenditure in the MDB to total \$204.12 million in the 2014-17 regulatory period. In real, annual average terms this is a 14 per cent decrease from the annual average of actual and forecast capital expenditure in the current 2010-14 regulatory period.

The largest components of State Water’s proposed capital expenditure program include dam safety upgrades—predominantly for the Keepit, Burrendong and Chaffey dams, and environmental planning and protection—predominantly works for the Copeton, Wyangala, Burrendong and Keepit fish passages.

State Water proposes to undertake the bulk of its capital expenditure early in the next regulatory period, as shown in chart 3.7. This chart also shows that State Water has significantly underspent against IPART’s regulatory allowance in the first three years of the 2010-14 regulatory period. However, it estimates that by the end of the period its capital expenditure will be only 2 per cent below the allowance.

Chart 3.7 State Water's actual, forecasts for 2012-14 and proposed capital expenditure for 2014-17 (\$2013-14)



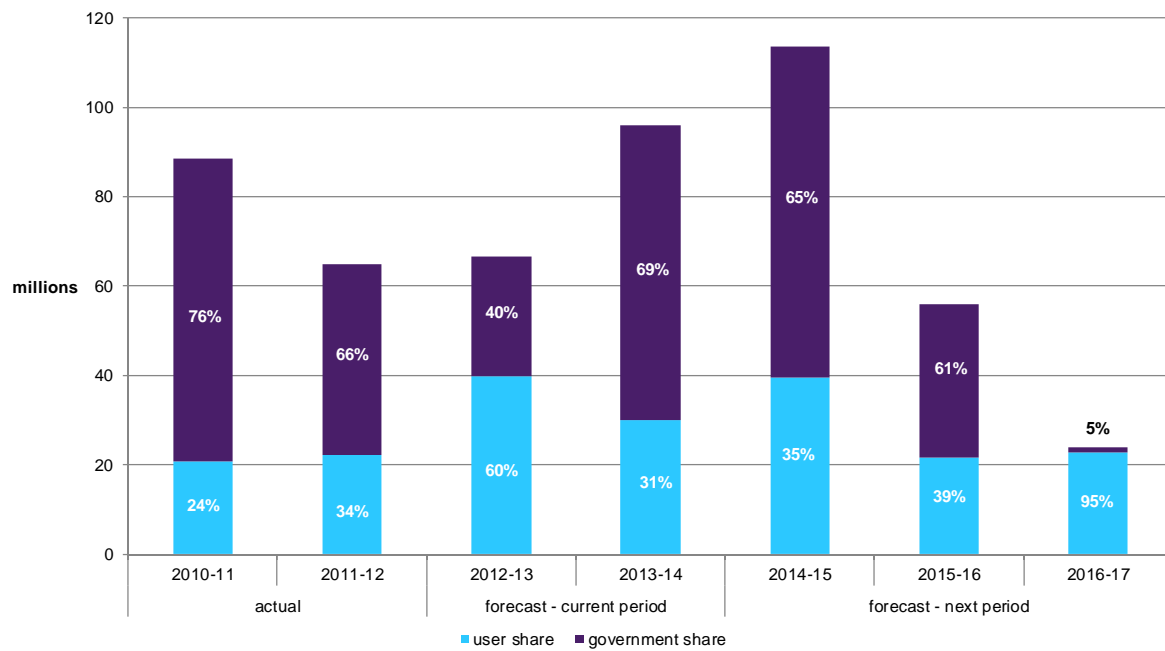
Note: MDB valleys only

The cost of activities associated with capital expenditure for the next regulatory period will be allocated between users and the NSW Government according to the ratios set by IPART in its 2010 Determination.

Chart 3.8 shows that the majority of capital expenditure for the 2014-17 regulatory period is proposed to be spent in 2014-15, and 65 per cent of that expenditure would be funded by the NSW Government. This is because the bulk of the capital expenditure proposed for the first year of the next regulatory period is related to dam safety compliance for pre-1997 construction of dams, which is 100

per cent funded by the NSW Government, and expenditure on fish passages which is 50 per cent funded by the NSW Government.

Chart 3.8 Government and user shares of capital expenditure (\$2013-14)



Section 3.2 of this paper provides a valley-by-valley breakdown of State Water’s proposed operational and capital expenditure over the 2014-17 regulatory period compared to the current 2010-14 period. At the end of section 3.2 there is a list of questions for stakeholders to consider in relation to proposed expenditure by State Water in each valley it services.

3.2 Valley specific overview of State Water's application

3.2.1 Border valley

High security entitlement and usage charges in the Border valley decrease over the 2014-17 regulatory period compared to the current 2013-14 charges. General security entitlement charges increase over this period. This is mainly due to a decrease in the smoothed revenue requirement for the Border valley and the removal of the BRC pass through costs from the revenue requirement, as discussed previously.

State Water proposes the following charges for the Border valley.

Table 3.6 State Water's proposed charges for the Border valley (\$2013-14)

	2013-14 (current*)	2014-15	2015-16	2016-17	Per cent change 2013-14 to 2016-17
High security entitlement charge	11.45	4.18	5.37	6.55	-43%
General security entitlement charge	3.21	3.26	4.20	5.11	59%
Usage charge	9.43	6.28	4.35	2.46	-74%

*Source: IPART 'Review of Bulk water charges for State Water Corporation, Water – Determination' June 2010. Charges for 2013-14 include BRC and MDBA cost recovery. Proposed charges for 2014-17 do not incorporate these costs.

The Border valley has 263,238 ML of general security entitlements, and 3,122 ML of high security entitlements. High security entitlements represent 1.2 per cent of entitlements.

State Water's forecast consumptive demand for the Border valley is 138.8 GL per year. This forecast is based on a 20 year moving average of the Integrated Quantity and Quality Model (IQQM) 1992-93 to 1994-95 and actual extractions from 1995-96 to 2011-12. Chart 3.9 shows actual extractions compared to the forecast moving average for the Border valley.

Chart 3.9 Border valley actual water extractions and 20 year moving average as at 2011-12



State Water is proposing that the revenue required to recover costs in the Border valley will be 26 per cent less in 2016-17 compared to the revenue required in 2013-14. This is mainly due to the removal of BRC cost recovery for the 2014-17 regulatory period. See table 3.7 below.

Table 3.7 State Water’s proposed user share revenue requirement for the Border valley (\$2013-14, \$million)

2013-14 (current*)	2014-15	2015-16	2016-17
2.29	1.74	1.75	1.68

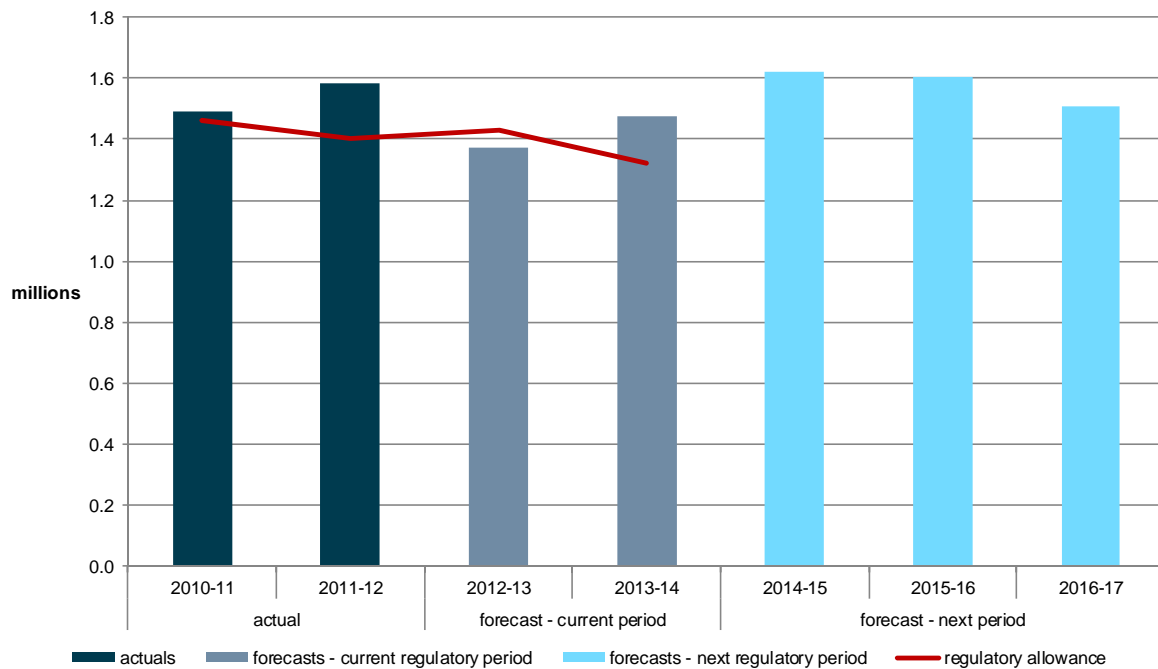
*Source: IPART ‘Review of Bulk water charges for State Water Corporation, Water – Determination’ June 2010. Revenue for 2013-14 includes BRC and MDBA cost recovery, revenue over 2014-17 does not.

State Water has proposed \$4.73 million in operating expenditure for the Border valley for the next regulatory period. The annual average level of operating expenditure proposed for the next regulatory period is 6.45 per cent greater than the annual average level in the current regulatory period.

The major areas of operating expenditure proposed for the next regulatory period are Water Delivery and Other Operations (\$0.96 million) and Routine Maintenance (\$0.79 million).

Chart 3.10 shows State Water’s operating expenditure over the current regulatory period and IPART’s approved level of operating expenditure. It also shows State Water’s proposed operating expenditure over the next regulatory period.

Chart 3.10 State Water's actual, forecast for 2012-14 and proposed operating expenditure for 2014-17 (\$2013-14) for the Border valley

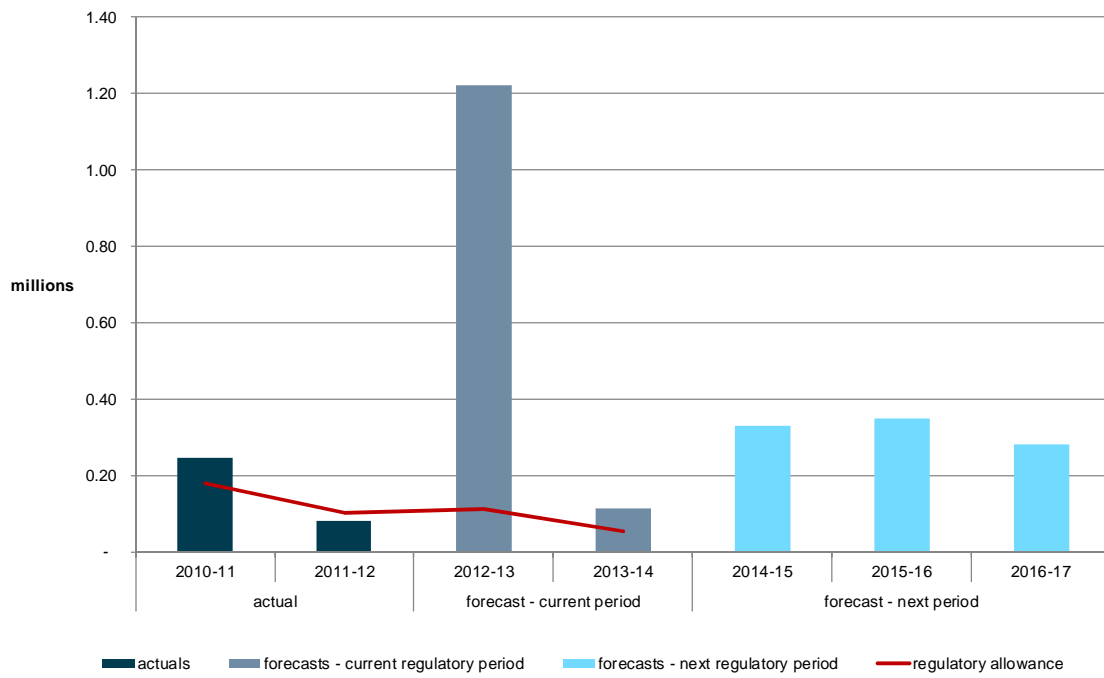


State Water has proposed \$0.96 million in capital expenditure for the Border valley for the next regulatory period. The annual average level of capital expenditure proposed for the next regulatory period is 23 per cent below the annual average level in the current regulatory period.

The major areas of capital expenditure proposed for the next regulatory period are Water Delivery and Other Operations (\$0.57 million) and Corporate Systems (\$0.35 million).

Chart 3.11 shows State Water's capital expenditure over the current regulatory period and IPART's approved level of capital expenditure. It also shows State Water's proposed capital expenditure over the next regulatory period.

Chart 3.11 State Water's actual, forecast for 2012-14 and proposed capital expenditure for 2014-17 for the Border Valley (\$2013-14)



3.2.2 Gwydir valley

State Water's proposed shift to a higher fixed to variable ratio means both high and general security entitlement charges will increase over the regulatory period. High and general security entitlement charges would be 10 per cent and 118 per cent higher, respectively, than the charges for 2013-14. Gwydir valley's usage charge decreases by 59 per cent in 2016-17 compared to 2013-14.

State Water proposes the following charges for the Gwydir valley.

Table 3.8 State Water proposed charges for the Gwydir valley (\$2013-14)

	2013-14 (current*)	2014-15	2015-16	2016-17	Per cent change 2013-14 to 2016-17
High security entitlement charge	14.55	8.95	12.32	16.04	10%
General security entitlement charge	4.06	4.95	6.81	8.86	118%
Usage charge	12.97	11.95	8.85	5.36	-59%

*Source: IPART 'Review of Bulk water charges for State Water Corporation, Water – Determination' June 2010. Charges for 2013-14 include MDBA cost recovery. Proposed charges for 2014-17 do not incorporate these costs.

The Gwydir valley has 509,665 ML of general security entitlements, and 21,458 ML of high security entitlements. High security entitlements represent 4 per cent of entitlements.

State Water's forecast consumptive demand for the Gwydir valley is 226.9 GL per year. This forecast is based on a 20 year moving average of IQQM 1992-93 to 1994-95 and actual extractions from 1995-96 to 2011-12. Chart 3.12 shows actual extractions compared to the forecast moving average for Gwydir valley.

Chart 3.12 Gwydir valley actual water extractions and the 20 year moving average as at 2011-12



State Water is proposing that the revenue required to recover costs in the Gwydir valley will be 9 per cent more in 2016-17 compared to the revenue required in 2013-14. See table 3.9 below.

Table 3.9 State Water proposed user share revenue requirement for the Gwydir valley (\$2013-14, \$millions)

2013-14 (current)	2014-15	2015-16	2016-17
5.90	5.42	6.25	6.42

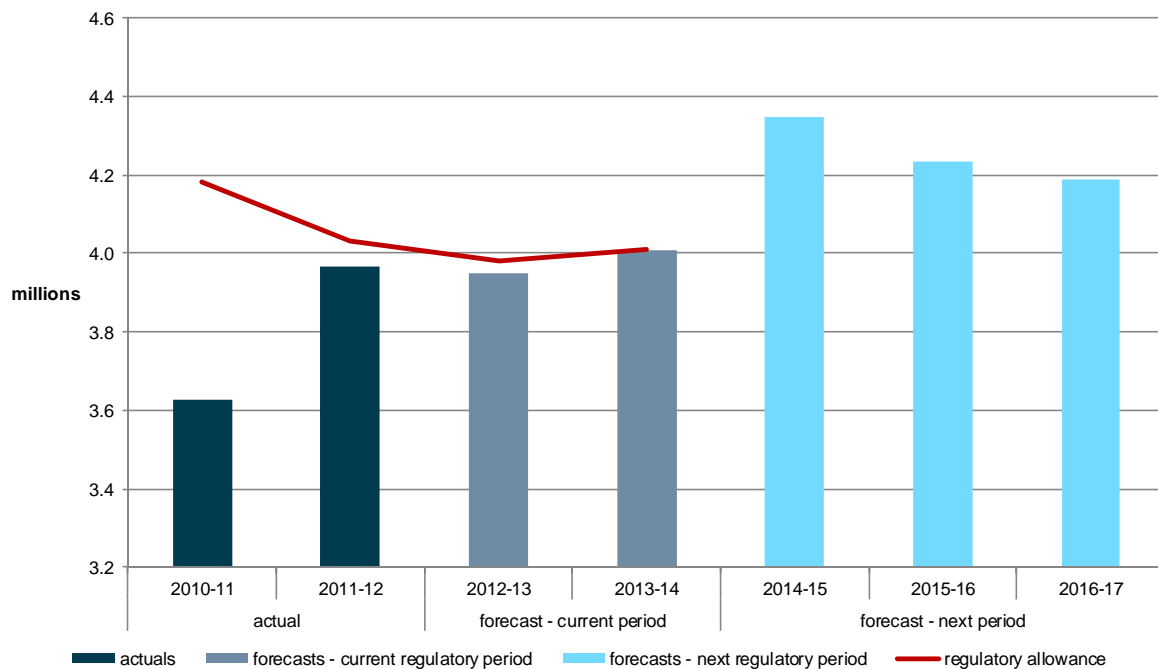
*Source: IPART 'Review of Bulk water charges for State Water Corporation, Water – Determination' June 2010. Revenue for 2013-14 includes MDBA cost recovery, revenue over 2014-17 does not.

State Water has proposed \$12.77 million in operating expenditure for the Gwydir valley for the next regulatory period. The annual average level of operating expenditure proposed for the next regulatory period is 9.51 per cent greater than the annual average level in the current regulatory period.

The major areas of operating expenditure proposed for the next regulatory period are Routine Maintenance (\$2.52 million) and Hydrometric Monitoring (\$2.22 million).

Chart 3.13 shows State Water's operating expenditure over the current regulatory period and IPART's approved level of operating expenditure. It also shows State Water's proposed operating expenditure over the next regulatory period.

Chart 3.13 State Water's actual, forecast for 2012-14 and proposed operating expenditure for 2014-17 (\$2013-14) for the Gwydir Valley

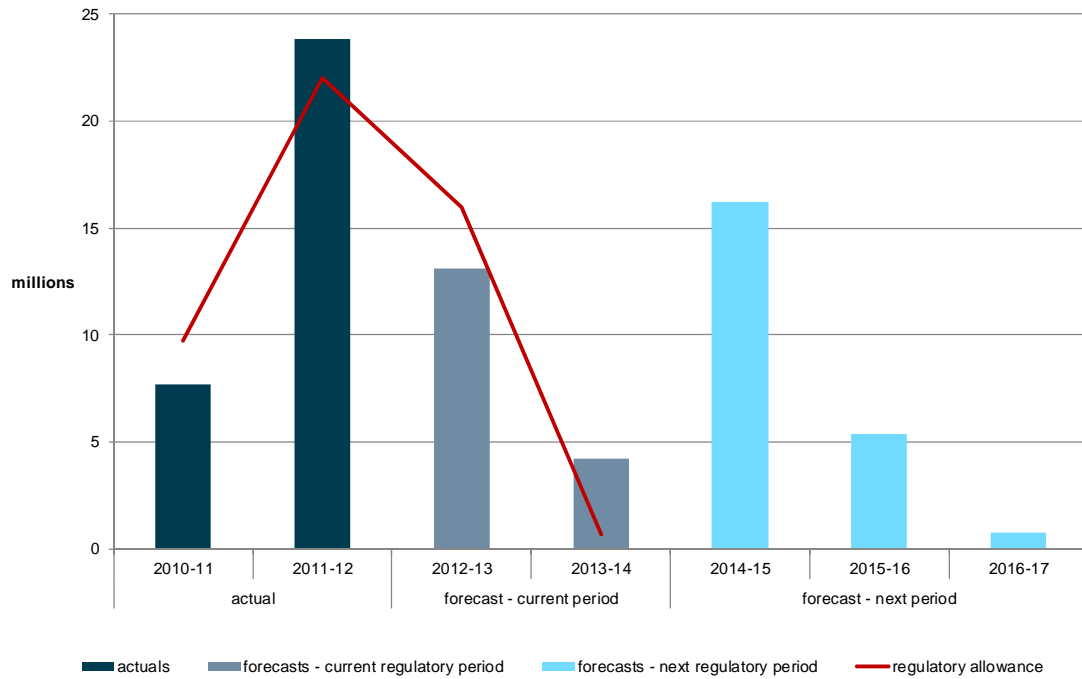


State Water has proposed \$22.32 million in capital expenditure for the Gwydir valley for the next regulatory period. The annual average level of capital expenditure proposed for the next regulatory period is 39 per cent below the annual average level in the current regulatory period.

The major area of capital expenditure proposed for the next regulatory period is Environmental Planning and Protection (\$18.38 million). The Environmental Planning and Protection capital expenditure is for fish passage works.

Chart 3.14 shows State Water's capital expenditure over the current regulatory period and IPART's approved level of capital expenditure. It also shows State Water's proposed capital expenditure over the next regulatory period.

Chart 3.14 State Water's actual, forecast for 2012-14 and proposed capital expenditure for 2014-17 for the Gwydir Valley (\$2013-14)



3.2.3 Namoi valley

State Water's proposed shift to a higher fixed to variable ratio means both high and general security entitlement charges will increase over the regulatory period. High and general security entitlement charges would be 45 per cent and 108 per cent higher, respectively, than the charges for 2013-14. Namoi valley's usage charge decreases by 60 per cent in 2016-17 compared to 2013-14.

State Water proposes the following charges for the Namoi valley.

Table 3.10 State Water proposed charges for the Namoi valley

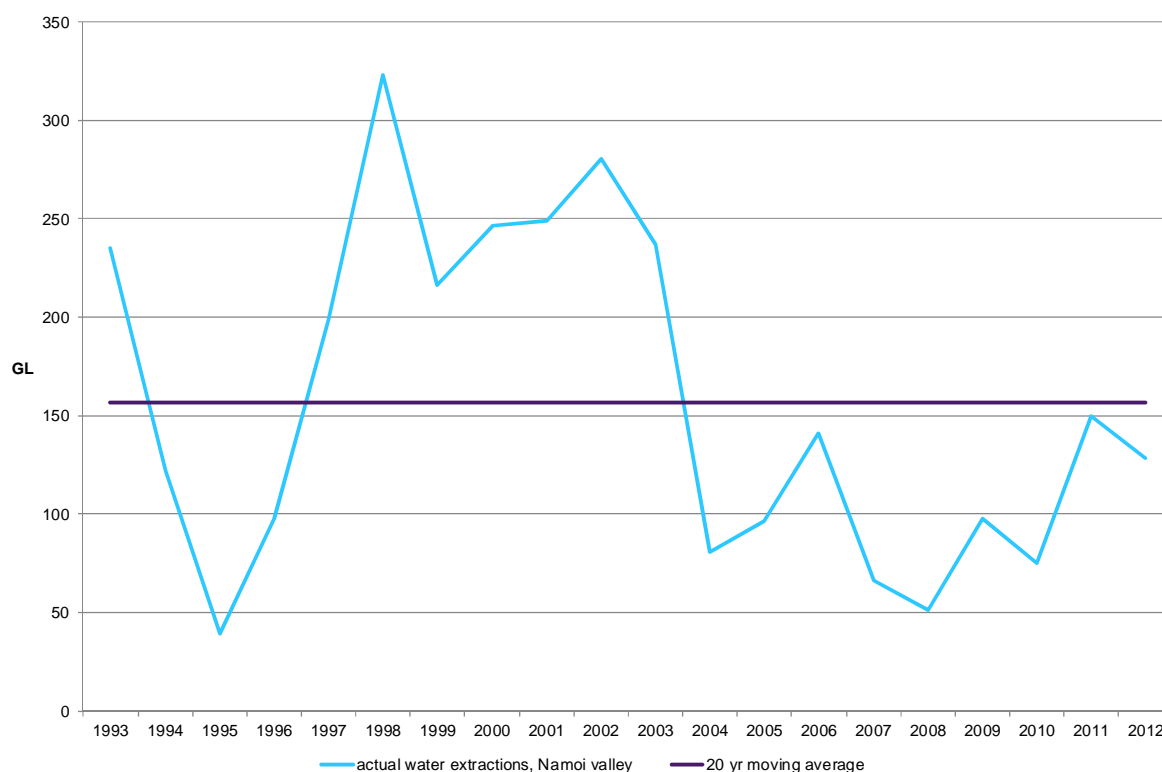
	2013-14 (Current*)	2014-15	2015-16	2016-17	Per cent change 2013-14 to 2016-17
High security entitlement charge	16.22	14.58	19.06	23.59	45%
General security entitlement charge	9.09	11.66	15.24	18.87	108%
Usage charge	19.98	19.88	14.00	8.04	-60%

*Source: IPART 'Review of Bulk water charges for State Water Corporation, Water – Determination' June 2010. Charges for 2013-14 include MDBA cost recovery. Proposed charges for 2014-17 do not incorporate these costs.

The Namoi valley has 256,076 ML of general security entitlements, and 8,881 ML of high security entitlements. High security entitlements represent 3.4 per cent of entitlements.

State Water's forecast consumptive demand for the Namoi valley is 156.7 GL per year. This forecast is based on a 20 year moving average of IQQM 1992-93 to 1994-95 and actual extractions from 1995-96 to 2011-12. Chart 3.15 shows actual extractions compared to the forecast moving average for Namoi valley.

Chart 3.15 Namoi valley actual water extractions and the 20 year moving average as at 2011-12



State Water is proposing that the revenue required to recover costs in the Namoi valley will be 1 per cent more in 2016-17 compared to the revenue required in 2013-14. See table 3.11 below.

Table 3.11 State Water proposed user share revenue requirement for the Namoi valley (\$2013-14, \$million)

2013-14 (current*)	2014-15	2015-16	2016-17
6.21	6.23	6.27	6.30

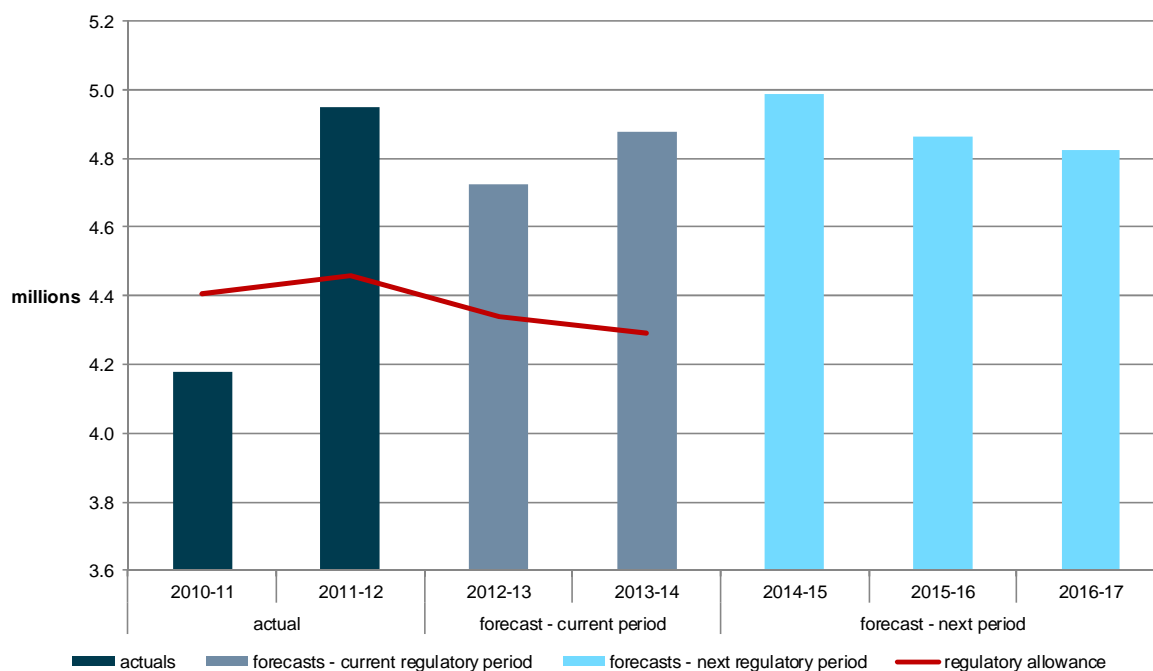
*Source: IPART 'Review of Bulk water charges for State Water Corporation, Water – Determination' June 2010. Revenue for 2013-14 includes MDBA cost recovery, revenue over 2014-17 does not.

State Water has proposed \$14.68 million in operating expenditure for the Namoi valley for the next regulatory period. The annual average level of operating expenditure proposed for the next regulatory period is 4.48 per cent greater than the annual average level in the current regulatory period.

The major areas of operating expenditure proposed for the next regulatory period are Routine Maintenance (\$3.50 million) and Hydrometric Monitoring (\$2.13 million).

Chart 3.16 shows State Water's operating expenditure over the current regulatory period and IPART's approved level of operating expenditure. It also shows State Water's proposed operating expenditure over the next regulatory period.

Chart 3.16 State Water's actual, forecast for 2012-14 and proposed operating expenditure for 2014-17 for the Namoi valley (\$2013-14)

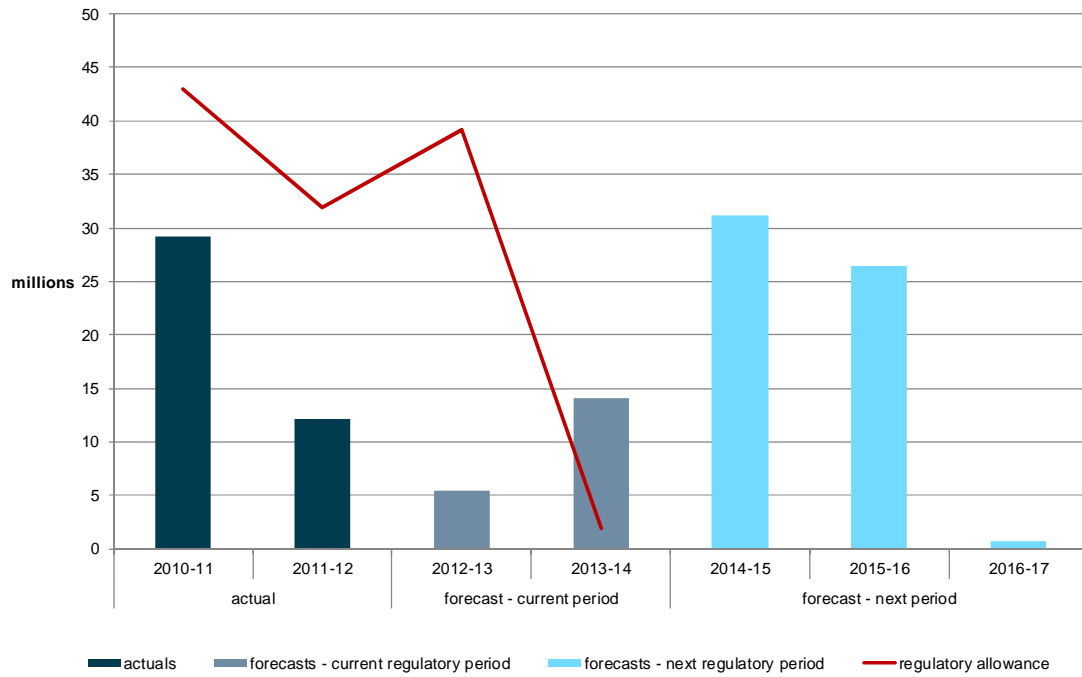


State Water has proposed \$58.37 million in capital expenditure for the Namoi valley for the next regulatory period. The annual average level of capital expenditure proposed for the next regulatory period is 28 per cent greater than the annual average level in the current regulatory period.

The major area of capital expenditure proposed for the next regulatory period is Dam Safety Compliance. The Dam Safety Compliance capital expenditure is for pre-1997 compliance requirements, and is fully funded by the NSW Government under the cost sharing arrangements discussed previously.

Chart 3.17 shows State Water's capital expenditure over the current regulatory period and IPART's approved level of capital expenditure. It also shows State Water's proposed capital expenditure over the next regulatory period.

Chart 3.17 State Water's actual, forecast for 2012-14 and proposed capital expenditure for 2014-17 for the Namoi Valley (\$2013-14)



3.2.4 Peel valley

State Water's proposed shift to a higher fixed to variable ratio means both high and general security entitlement charges will increase over the regulatory period. High and general security entitlement charges would be 168 per cent and 262 per cent higher, respectively, than the charges for 2013-14. Peel valley's usage charge decreases by 20 per cent in 2016-17 compared to 2013-14.

State Water's proposed charges for the Peel valley are based on full cost recovery. That is, charges do not include a community service obligation subsidy previously provided by the NSW Government to cover a portion of user share costs in the Peel valley. State Water has proposed charges on this basis as the NSW Government has not yet advised State Water of future subsidies.

State Water proposes the following charges for the Peel valley,

Table 3.12 State Water proposed charges for the Peel valley

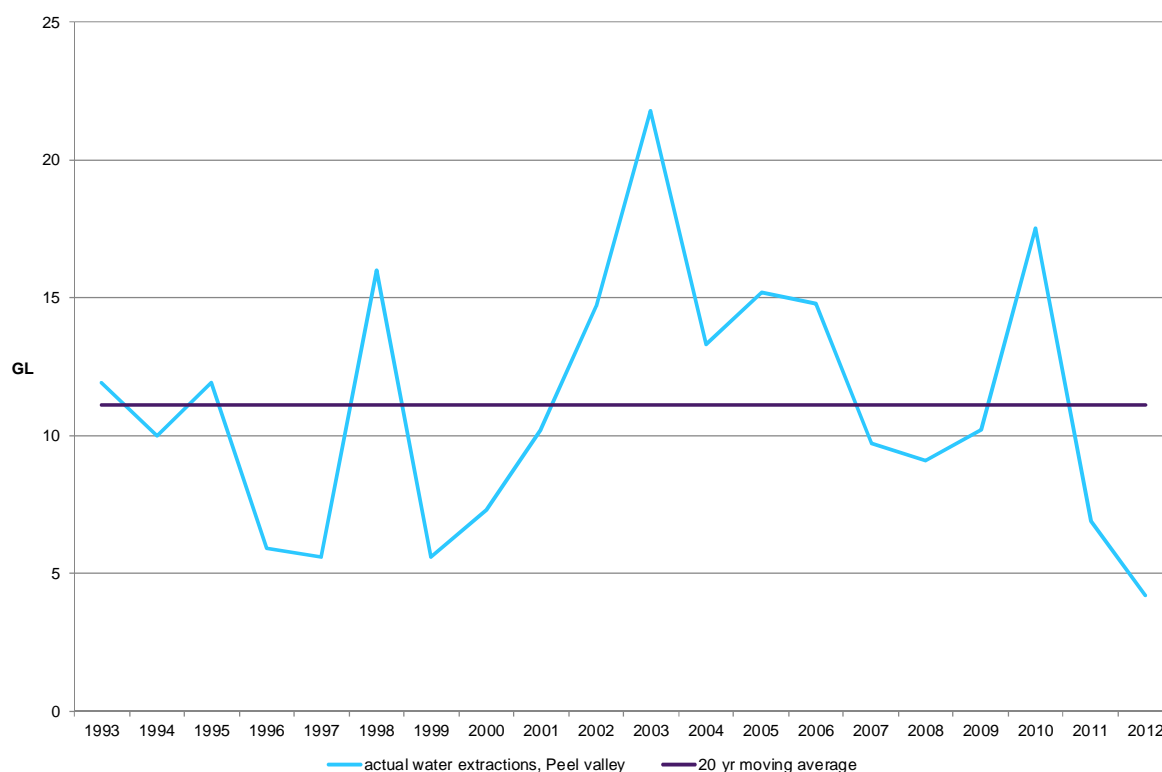
	2013-14 (Current*)	2014-15	2015-16	2016-17	Per cent change 2013-14 to 2016-17
High security entitlement charge	25.19	37.63	51.79	67.48	168%
General security entitlement charge	2.77	5.59	7.70	10.03	262%
Usage charge	41.61	74.34	55.09	33.33	-20%

*Source: IPART 'Review of Bulk water charges for State Water Corporation, Water – Determination' June 2010. Charges for 2013-14 include MDBA cost recovery. Proposed charges for 2014-17 do not incorporate these costs.

The Peel valley has 30,528 ML of general security entitlements, and 17,382 ML of high security entitlements. High security entitlements represent 36.3 per cent of entitlements.

State Water's forecast consumptive demand for the Peel valley is 11.1 GL per year. This forecast is based on a 20 year moving average of IQQM 1992-93 to 1994-95 and actual extractions from 1995-96 to 2011-12. Chart 3.18 shows actual extractions compared to the forecast moving average for Peel valley.

Chart 3.18 Peel valley actual water extractions and the 20 year moving average as at 2011-12



State Water is proposing that the revenue required to recover costs in the Peel valley will be 45 per cent more in 2016-17 than the revenue required in 2013-14. See table 3.13 below.

Table 3.13 State Water proposed user share revenue requirement for the Peel valley (\$2013-14, \$million)

2013-14 (current*)	2014-15	2015-16	2016-17
1.20	1.65	1.85	1.74

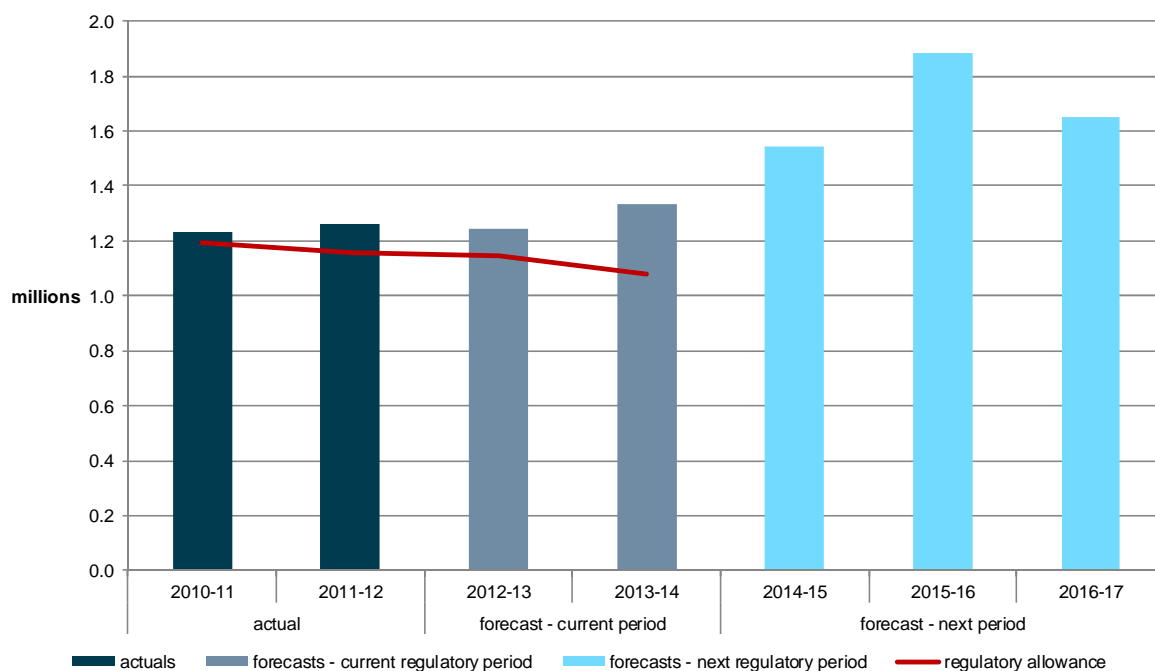
*Source: IPART 'Review of Bulk water charges for State Water Corporation, Water – Determination' June 2010. Revenue for 2013-14 includes MDBA cost recovery, revenue over 2014-17 does not.

State Water has proposed \$5.08 million in operating expenditure for the Peel valley for the next regulatory period. The annual average level of operating expenditure proposed for the next regulatory period is 33.57 per cent greater than the annual average level in the current regulatory period.

The major areas of operating expenditure proposed for the next regulatory period are Routine Maintenance (\$0.77 million) and Hydrometric Monitoring (\$0.70 million).

Chart 3.17 shows State Water's operating expenditure over the current regulatory period and IPART's approved level of operating expenditure. It also shows State Water's proposed operating expenditure over the next regulatory period.

Chart 3.19 State Water's actual, forecast for 2012-14 and proposed operating expenditure for 2014-17 for the Peel valley (\$2013-14)

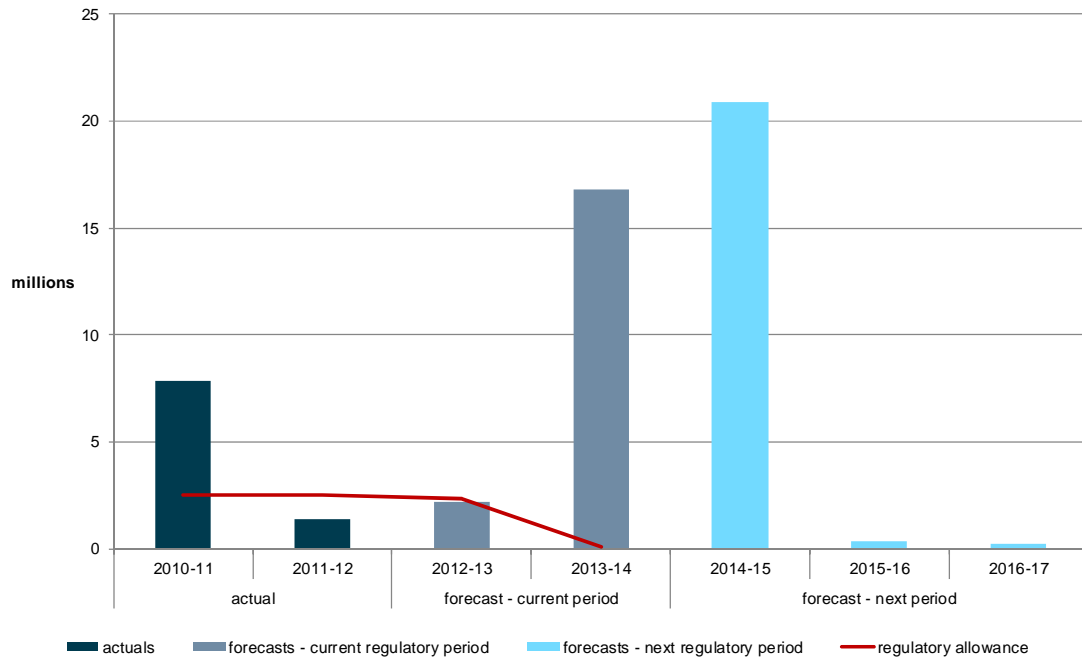


State Water has proposed \$21.46 million in capital expenditure for the Peel valley for the next regulatory period. The annual average level of capital expenditure proposed for the next regulatory period is 1 per cent greater than the annual average level in the current regulatory period.

The major area of capital expenditure proposed for the next regulatory period is Dam Safety Compliance (\$20.38 million). The Dam Safety Compliance capital expenditure is for pre-1997 compliance requirements, and is fully funded by the NSW Government under the cost sharing arrangements discussed previously.

Chart 3.20 shows State Water's capital expenditure over the current regulatory period and IPART's approved level of capital expenditure. It also shows State Water's proposed capital expenditure over the next regulatory period.

Chart 3.20 State Water's actual, forecast for 2012-14 and proposed capital expenditure for 2014-17 for the Peel valley (\$2013-14)



3.2.5 Lachlan valley

State Water's proposed shift to a higher fixed to variable ratio means both high and general security entitlement charges will increase over the regulatory period. High and general security entitlement charges would be 87 per cent and 114 per cent higher, respectively, than the charges for 2013-14. Lachlan valley's usage charge decreases by 53 per cent in 2016-17 compared to 2013-14.

State Water proposes the following charges for the Lachlan valley.

Table 3.14 State Water proposed charges for the Lachlan valley

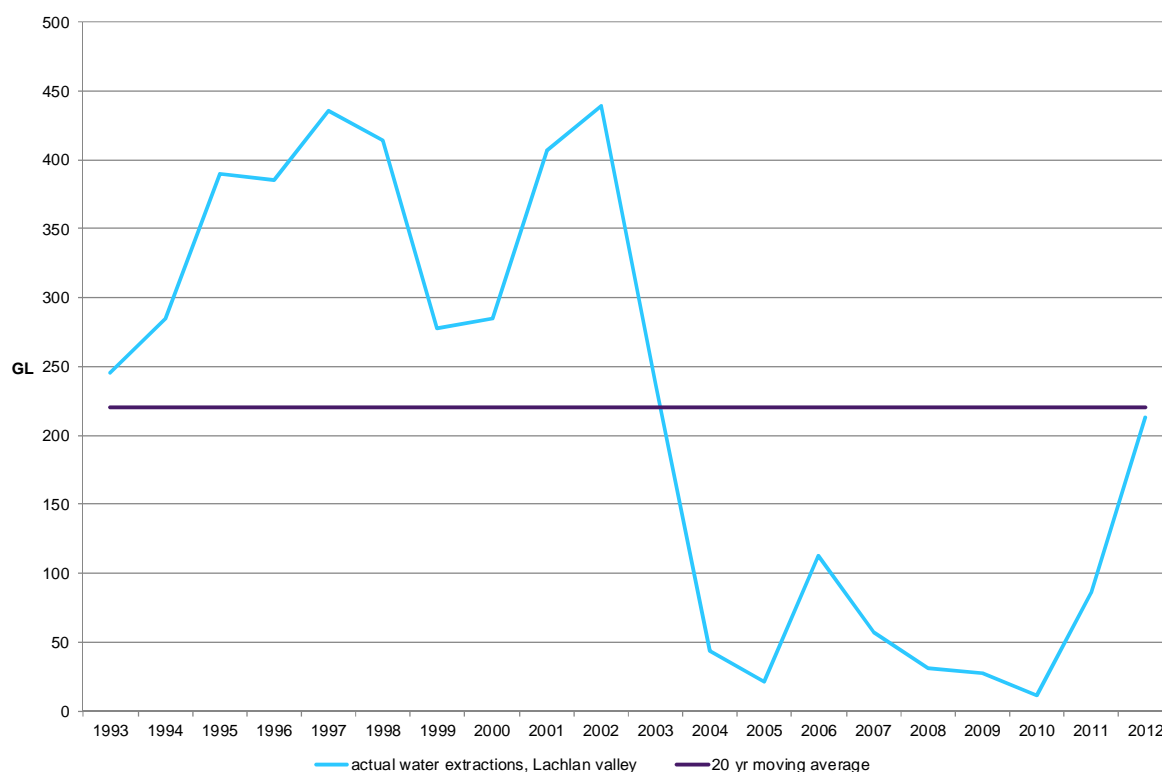
	2013-14 (Current*)	2014-15	2015-16	2016-17	Per cent change 2013-14 to 2016-17
High security entitlement charge	12.36	12.57	17.52	23.14	87%
General security entitlement charge	4.42	5.13	7.16	9.44	114%
Usage charge	18.04	18.20	13.67	8.39	-53%

*Source: IPART 'Review of Bulk water charges for State Water Corporation, Water – Determination' June 2010.

The Lachlan valley has 632,837 ML of general security entitlements, and 60,745 ML of high security entitlements. High security entitlements represent 8.8 per cent of entitlements.

State Water's forecast consumptive demand for the Lachlan valley is 220.3 GL per year. This forecast is based on a 20 year moving average of IQQM 1992-93 to 1994-95 and actual extractions from 1995-96 to 2011-12. Chart 3.21 shows actual extractions compared to the forecast moving average for the Lachlan valley.

Chart 3.21 Lachlan valley actual water extractions and the 20 year moving average as at 2011-12



State Water is proposing that the revenue required to recover costs in the Lachlan valley will be 10 per cent more in 2016-17 than the revenue required in 2013-14. See table 3.15 below.

Table 3.15 State Water proposed user share revenue requirement for the Lachlan valley (\$2013-14, \$million)

2013-14 (current*)	2014-15	2015-16	2016-17
8.02	8.02	8.72	8.82

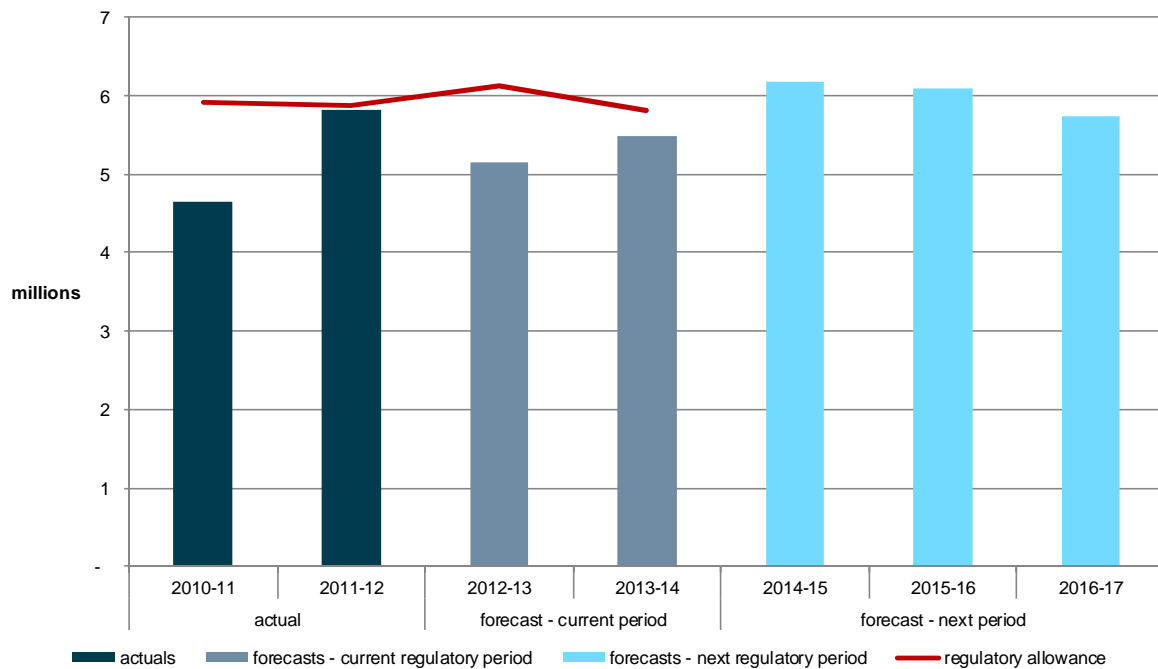
*Source: IPART 'Review of Bulk water charges for State Water Corporation, Water – Determination' June 2010.

State Water has proposed \$18.02 million in operating expenditure for the Lachlan valley for the next regulatory period. The annual average level of operating expenditure proposed for the next regulatory period is 13.8 per cent greater than the annual average level in the current regulatory period.

The major areas of operating expenditure proposed for the next regulatory period are Routine Maintenance (\$5.20 million) and Water Delivery and Other Operations (\$3.62 million).

Chart 3.22 shows State Water's operating expenditure over the current regulatory period and IPART's approved level of operating expenditure. It also shows State Water's proposed operating expenditure over the next regulatory period.

Chart 3.22 State Water's actual, forecast for 2012-14 and proposed operating expenditure for 2014-17 for the Lachlan Valley (\$2013-14)

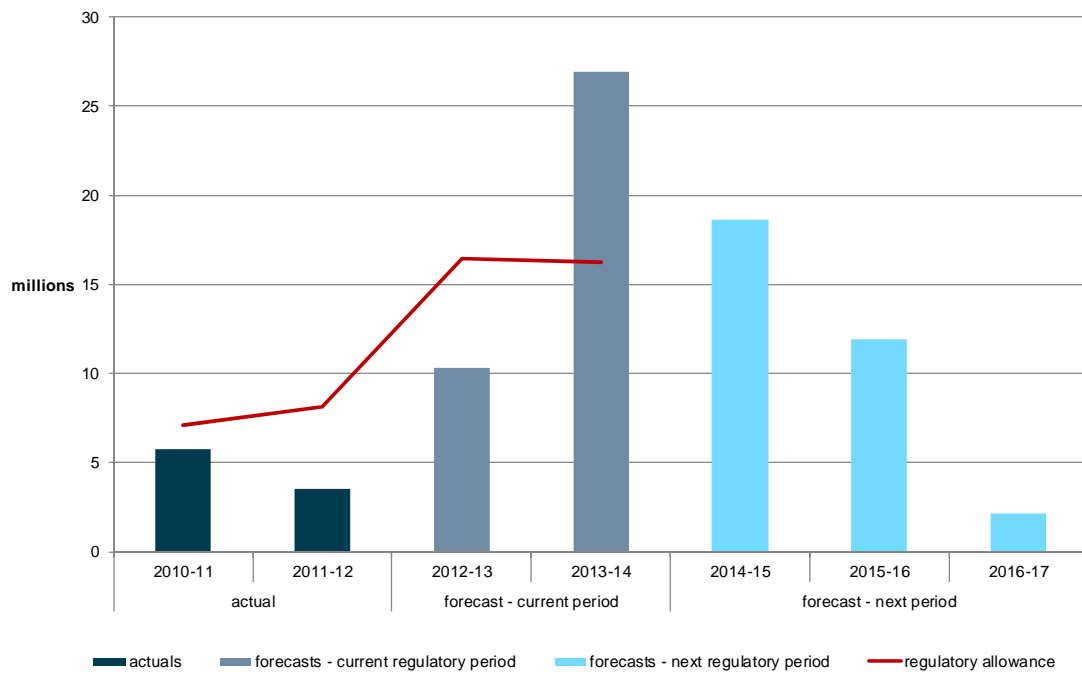


State Water has proposed \$32.65 million in capital expenditure for the Lachlan valley for the next regulatory period. The annual average level of capital expenditure proposed for the next regulatory period is 6 per cent below the annual average level in the current regulatory period.

The major area of capital expenditure proposed for the next regulatory period is Environmental Planning and Protection (\$24.92 million) for fish passage works.

Chart 3.23 shows State Water's capital expenditure over the current regulatory period and IPART's approved level of capital expenditure. It also shows State Water's proposed capital expenditure over the next regulatory period.

Chart 3.23 State Water's actual, forecast for 2012-14 and proposed capital expenditure for 2014-17 for the Lachlan valley (\$2013-14)



3.2.6 Lowbidgee Flood Control and Irrigation District

In October 2012, the NSW Office of Water released an amendment to the Murrumbidgee Water Sharing Plan, which creates new rules for the Lowbidgee Flood Control and Irrigation District. The effect is to create new supplementary water licences for this area.

State Water proposes to introduce a two-part tariff arrangement based on full cost recovery for bulk water services in Lowbidgee, consistent with State Water's other regulated valleys.

State Water proposes the following new charges for the Lowbidgee Flood Control and Irrigation District.

Table 3.16 State Water proposed charges for the Lowbidgee district

	2014-15	2015-16	2016-17
High security entitlement charge	na	na	na
General security entitlement charge	1.02	0.93	0.85
Usage charge	3.16	2.22	1.26

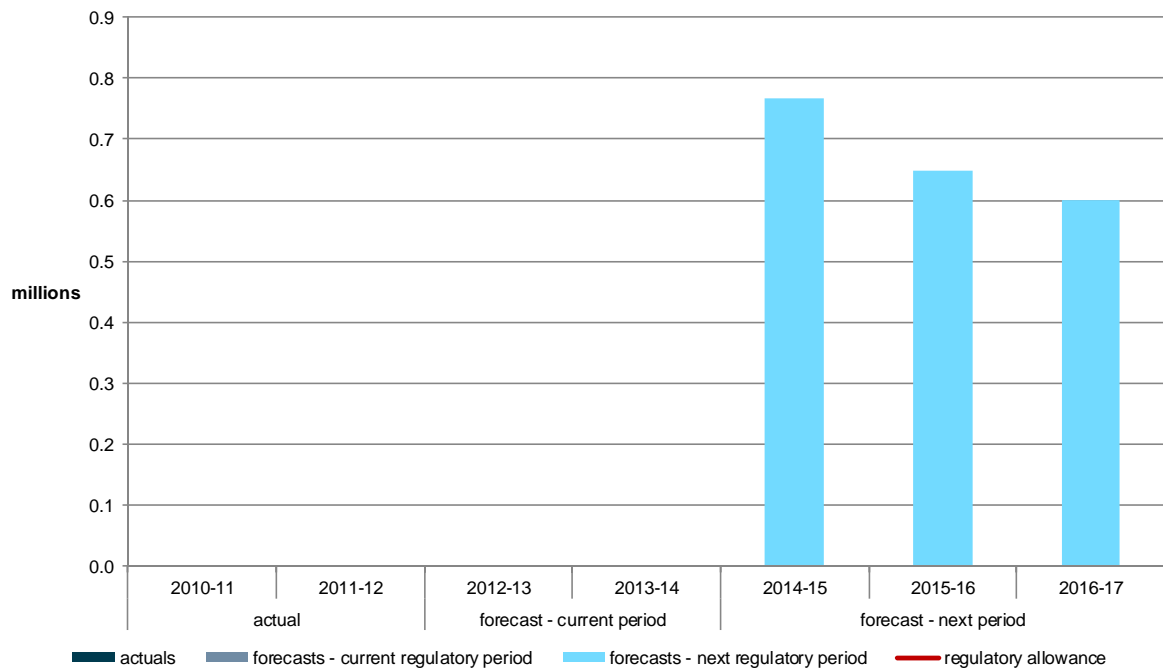
State Water proposes the following revenue requirement for Lowbidgee.

Table 3.17 State Water proposed user share revenue requirement for Lowbidgee (\$2013-14, \$million)

2014-15	2015-16	2016-17
0.77	0.67	0.68

State Water proposes that operating expenditure in Lowbidgee will be driven by routine maintenance and will decrease over the regulatory period as shown in chart 3.24.

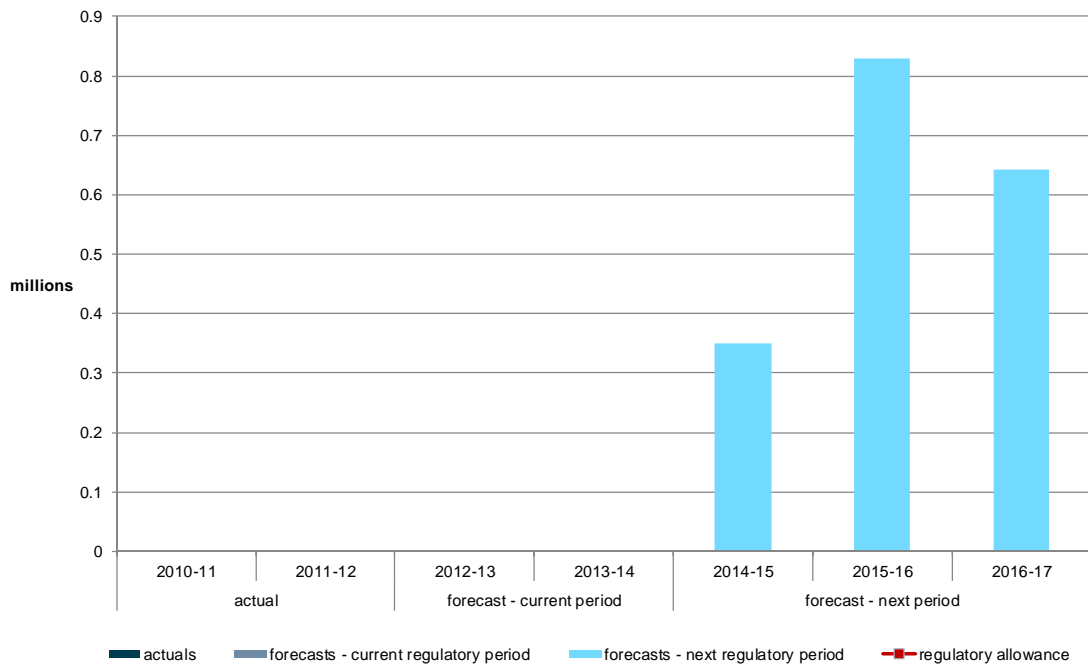
Chart 3.24 State Water's proposed operating expenditure for 2014-17 for Lowbidgee (\$2013-14)



State Water has proposed \$1.82 million in capital expenditure for the Lowbidgee valley for the next regulatory period. The major area of capital expenditure proposed for the next regulatory period is Renewal and Replacement (\$1.67 million).

Proposed capital expenditure for each year of the next regulatory period is shown in chart 3.25.

Chart 3.25 State Water's proposed capital expenditure for 2014-17 for Lowbidgee (\$2013-14)



3.2.7 Macquarie valley

State Water's proposed shift to a higher fixed to variable ratio means both high and general security entitlement charges will increase over the regulatory period. High and general security entitlement charges would be 73 per cent and 147 per cent higher, respectively, than the charges for 2013-14. Macquarie valley's usage charge decreases by 50 per cent in 2016-17 compared to 2013-14.

State Water proposes the following charges for the Macquarie valley.

Table 3.18 State Water proposed charges for the Macquarie valley

	2013-14 (Current*)	2014-15	2015-16	2016-17	Per cent change 2013-14 to 2016-17
High security entitlement charge	11.42	10.42	14.73	19.72	73%
General security entitlement charge	4.24	5.54	7.83	10.49	147%
Usage charge	13.98	14.68	11.18	6.96	-50%

*Source: IPART 'Review of Bulk water charges for State Water Corporation, Water – Determination' June 2010. Charges for 2013-14 include MDBA cost recovery. Proposed charges for 2014-17 do not incorporate these costs.

The Macquarie valley has 631,716 ML of general security entitlements, and 42,606 ML of high security entitlements. High security entitlements represent 6.3 per cent of entitlements.

State Water's forecast consumptive demand for the Macquarie valley is 268.6 GL per year. This forecast is based on a 20 year moving average of IQQM 1992-93 to 1994-95 and actual extractions from 1995-96 to 2011-12. Chart 3.26 shows actual extractions compared to the forecast moving average for the Macquarie valley.

Chart 3.26 Macquarie valley actual water extractions and the 20 year moving average as at 2011-12



State Water is proposing that the revenue required to recover costs in the Macquarie valley will be 23 per cent more in 2016-17 than the revenue required in 2013-14. See table 3.19 below.

Table 3.19 State Water proposed user share revenue requirement for the Macquarie valley (\$2013-14, \$million)

2013-14 (current*)	2014-15	2015-16	2016-17
7.55	7.89	8.63	9.25

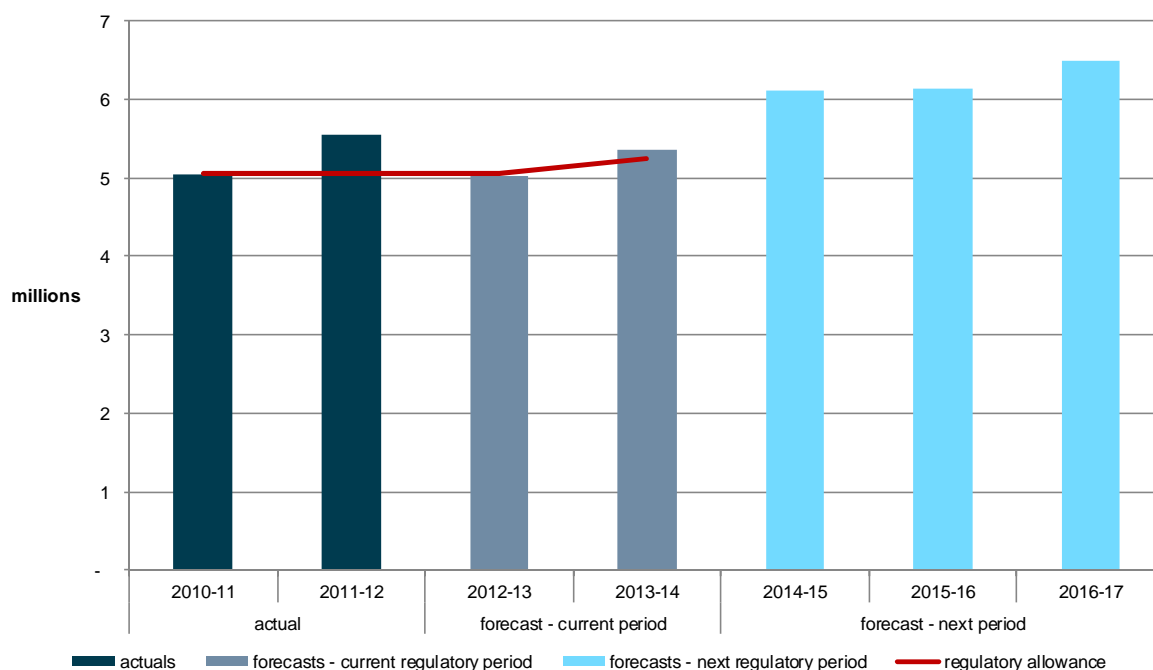
*Source: IPART 'Review of Bulk water charges for State Water Corporation, Water – Determination' June 2010. Revenue for 2013-14 includes MDBA cost recovery, revenue over 2014-17 does not.

State Water has proposed \$18.73 million in operating expenditure for the Macquarie valley for the next regulatory period. The annual average level of operating expenditure proposed for the next regulatory period is 19.1 per cent greater than the annual average level in the current regulatory period.

The major areas of operating expenditure proposed for the next regulatory period are Routine Maintenance (\$3.88 million) and Water Delivery and Other Operations (\$3.65 million).

Chart 3.27 shows State Water's operating expenditure over the current regulatory period and IPART's approved level of operating expenditure. It also shows State Water's proposed operating expenditure over the next regulatory period.

Chart 3.27 State Water's actual, forecast for 2012-14 and proposed operating expenditure for 2014-17 for the Macquarie valley (\$2013-14)

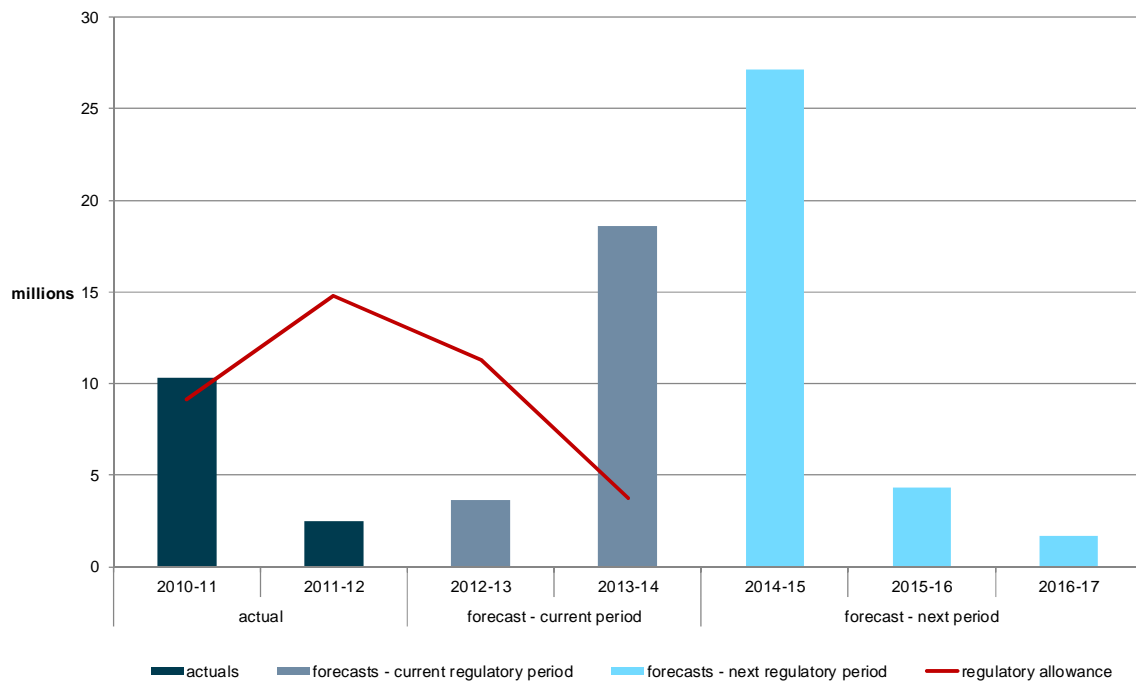


State Water has proposed \$33.20 million in capital expenditure for the Macquarie valley for the next regulatory period. The annual average level of capital expenditure proposed for the next regulatory period is 26 per cent greater compared to the annual average level in the current regulatory period.

The major areas of capital expenditure proposed for the next regulatory period are Dam Safety Compliance (\$13.24 million), Environmental Planning and Protection (\$7.97 million), Renewal and Replacement (\$5.37 million) and Water Delivery and Other Operations (\$5.27 million). The proposed capital expenditure for Dam Safety Compliance is for pre-1997 compliance requirements, and is therefore fully funded by the NSW Government under the cost sharing arrangements discussed previously. The proposed capital expenditure for Environmental Planning and Protection is for fish passage works.

Chart 3.28 shows State Water's capital expenditure over the current regulatory period and IPART's approved level of capital expenditure. It also shows State Water's proposed capital expenditure over the next regulatory period.

Chart 3.28 State Water's actual, forecast for 2012-14 and proposed capital expenditure for 2014-17 for the Macquarie valley (\$2013-14)



3.2.8 Murray valley

In the Murray valley high and general security entitlement charges would be 9 per cent and 2 per cent lower, respectively, than charges for 2013-14. Murray valley's usage charge decreases by 81 per cent in 2016-17 compared to 2013-14. These price changes are driven by a combination of the removal of MDBA costs being recovered through State Water's charges in the Murray valley and the shift to a higher fixed to variable ratio.

State Water proposes the following charges for the Murray valley.

Table 3.20 State Water proposed charges for the Murray valley

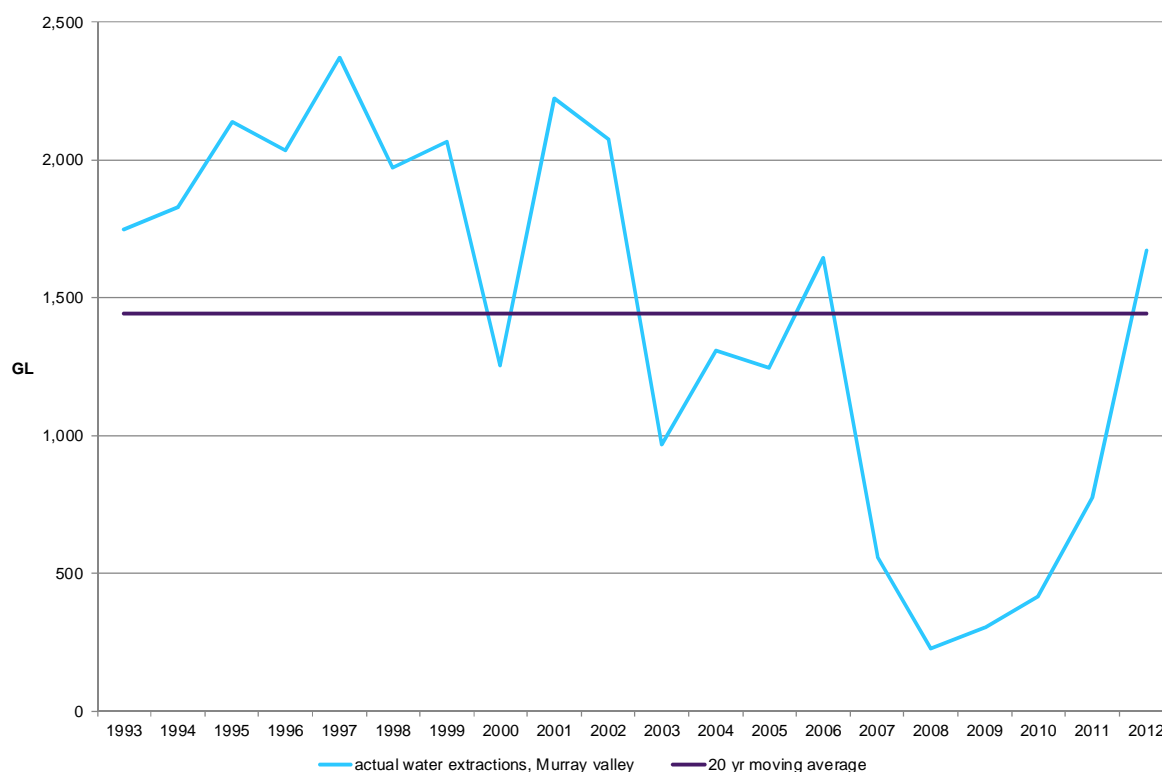
	2013-14 (Current*)	2014-15	2015-16	2016-17	Per cent change 2013-14 to 2016-17
High security entitlement charge	3.14	1.84	2.36	2.86	-9%
General security entitlement charge	2.33	1.47	1.88	2.29	-2%
Usage charge	4.97	2.46	1.69	0.96	-81%

*Source: IPART 'Review of Bulk water charges for State Water Corporation, Water – Determination' June 2010. Charges for 2013-14 include MDBA cost recovery. Proposed charges for 2014-17 do not incorporate these costs.

The Murray valley has 2,075,822 ML of general security entitlements, and 261,401 ML of high security entitlements. High security entitlements represent 11.2per cent of entitlements.

State Water's forecast consumptive demand for the Murray valley is 1,440.8 GL per year. This forecast is based on a 20 year moving average of IQQM 1992-93 to 1994-95 and actual extractions from 1995-96 to 2011-12. Chart 3.29 shows actual extractions compared to the forecast moving average for the Murray valley.

Chart 3.29 Murray valley actual water extractions and the 20 year moving average as at 2011-12



State Water is proposing that the revenue required to recover costs in the Murray valley will be 45 per cent less in 2016-17 compared to the revenue required in 2013-14. This reduction is partly driven by the removal of MDBA cost recovery from State Water’s charges. See table 3.21 below.

Table 3.21 State Water proposed user share revenue requirement for the Murray valley (\$2013-14, \$million)

2013-14 (current*)	2014-15	2015-16	2016-17
12.75	7.09	6.83	7.05

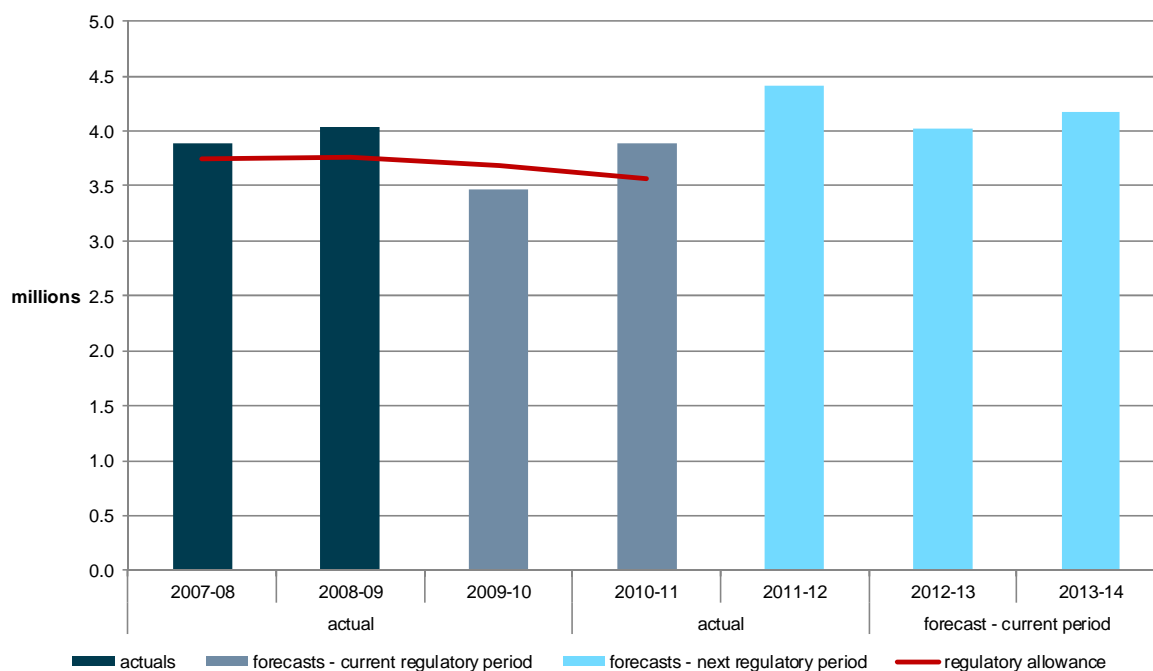
*Source: IPART ‘Review of Bulk water charges for State Water Corporation, Water – Determination’ June 2010. Revenue for 2013-14 includes MDBA cost recovery, revenue over 2014-17 does not.

State Water has proposed \$12.61 million in operating expenditure for the Murray valley for the next regulatory period. The annual average level of operating expenditure proposed for the next regulatory period is 10.15 per cent greater compared to the annual average level in the current regulatory period.

The major areas of operating expenditure proposed for the next regulatory period are Water Delivery and Other Operations (\$3.20 million) and Routine Maintenance (\$2.82 million).

Chart 3.30 shows State Water’s operating expenditure over the current regulatory period and IPART’s approved level of operating expenditure. It also shows State Water’s proposed operating expenditure over the next regulatory period.

Chart 3.30 State Water's actual, forecast for 2012-14 and proposed operating expenditure for 2014-17 for the Murray valley (\$2013-14)

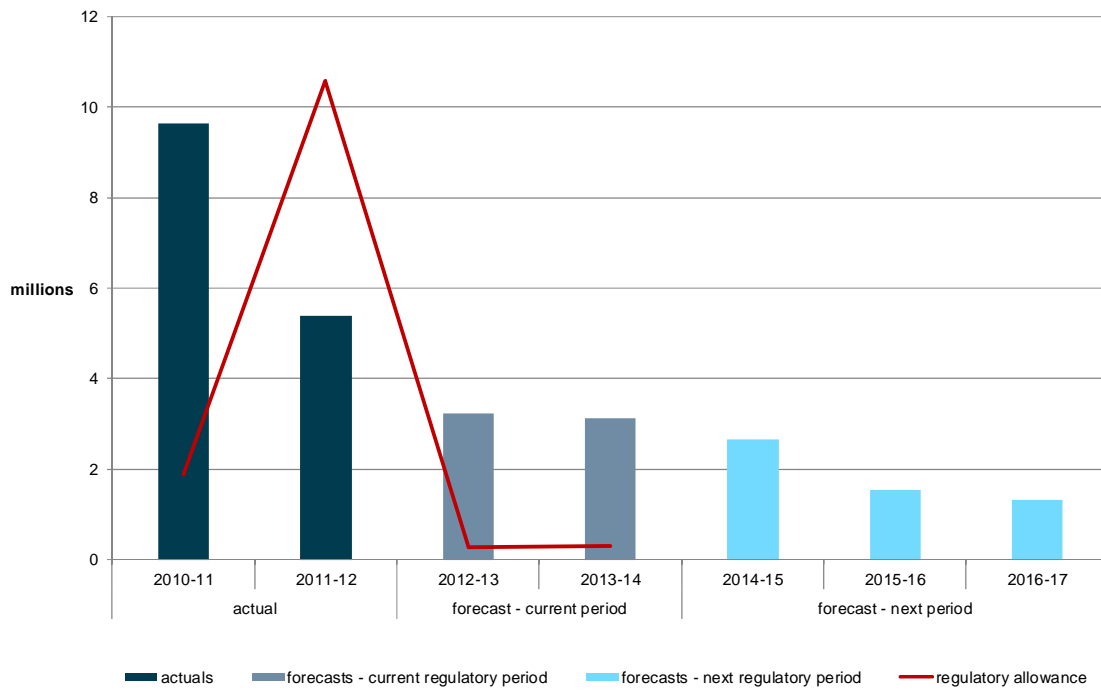


State Water has proposed \$5.55 million in capital expenditure for the Murray valley for the next regulatory period. The annual average level of capital expenditure proposed for the next regulatory period is 65 per cent below the annual average level in the current regulatory period.

The major areas of capital expenditure proposed for the next regulatory period are Water Delivery and Other Operations (\$1.94 million), Environmental Planning and Protection (\$1.63 million), Corporate Systems (\$0.92 million) and Dam Safety Compliance (\$0.83 million). Environmental Planning and Protection capital expenditure is for Fish Passage Works, and Dam Safety Compliance capital expenditure is for pre-1997 compliance requirements. Pre-1997 dam safety compliance is fully funded by the NSW Government under the cost sharing arrangements discussed previously.

Chart 3.31 shows State Water's capital expenditure over the current regulatory period and IPART's approved level of capital expenditure. It also shows State Water's proposed capital expenditure over the next regulatory period.

Chart 3.31 State Water's actual, forecast for 2012-14 and proposed capital expenditure for 2014-17 for the Murray valley (\$2013-14)



3.2.9 Murrumbidgee valley

State Water's proposed shift to a higher fixed to variable ratio means both high and general security entitlement charges will increase over the regulatory period. High and general security entitlement charges would be 61 per cent and 85 per cent higher, respectively, than the charges for 2013-14. Murrumbidgee valley's usage charge decreases by 67 per cent in 2016-17 compared to 2013-14.

State Water proposes the following charges for the Murrumbidgee valley.

Table 3.22 State Water proposed charges for the Murrumbidgee valley

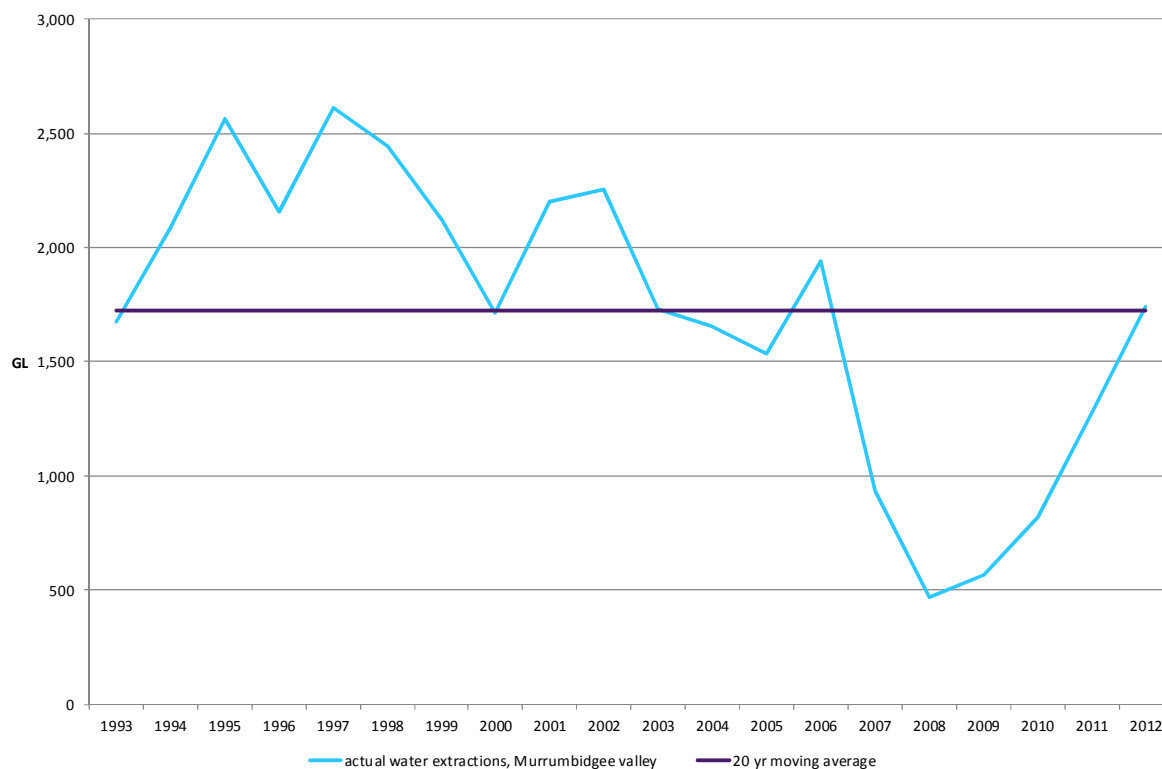
	2013-14 (Current*)	2014-15	2015-16	2016-17	Per cent change 2013-14 to 2016-17
High security entitlement charge	2.98	2.99	3.89	4.79	61%
General security entitlement charge	1.59	1.83	2.39	2.94	85%
Usage charge	3.78	3.16	2.22	1.26	-67%

*Source: IPART 'Review of Bulk water charges for State Water Corporation, Water – Determination' June 2010. Charges for 2013-14 include MDBA cost recovery. Proposed charges for 2014-17 do not incorporate these costs.

The Murrumbidgee valley has 2,260,113 ML of general security entitlements, and 436,928 ML of high security entitlements. High security entitlements represent 16.2 per cent of entitlements.

State Water's forecast consumptive demand for the Murrumbidgee valley is 1,725.1 GL per year. This forecast is based on a 20 year moving average of IQQM 1992-93 to 1994-95 and actual extractions from 1995-96 to 2011-12. Chart 3.32 shows actual extractions compared to the forecast moving average for Murrumbidgee valley.

Chart 3.32 Murrumbidgee valley actual water extractions and the 20 year moving average as at 2011-12



State Water is proposing that the revenue required to recover costs in the Murrumbidgee valley will be 3 per cent more in 2016-17 compared to the revenue required in 2013-14. See table 3.23 below.

Table 3.23 State Water proposed user share revenue requirement for the Murrumbidgee valley (\$2013-14, \$million)

2013-14 (current*)	2014-15	2015-16	2016-17
10.78	10.90	10.94	11.11

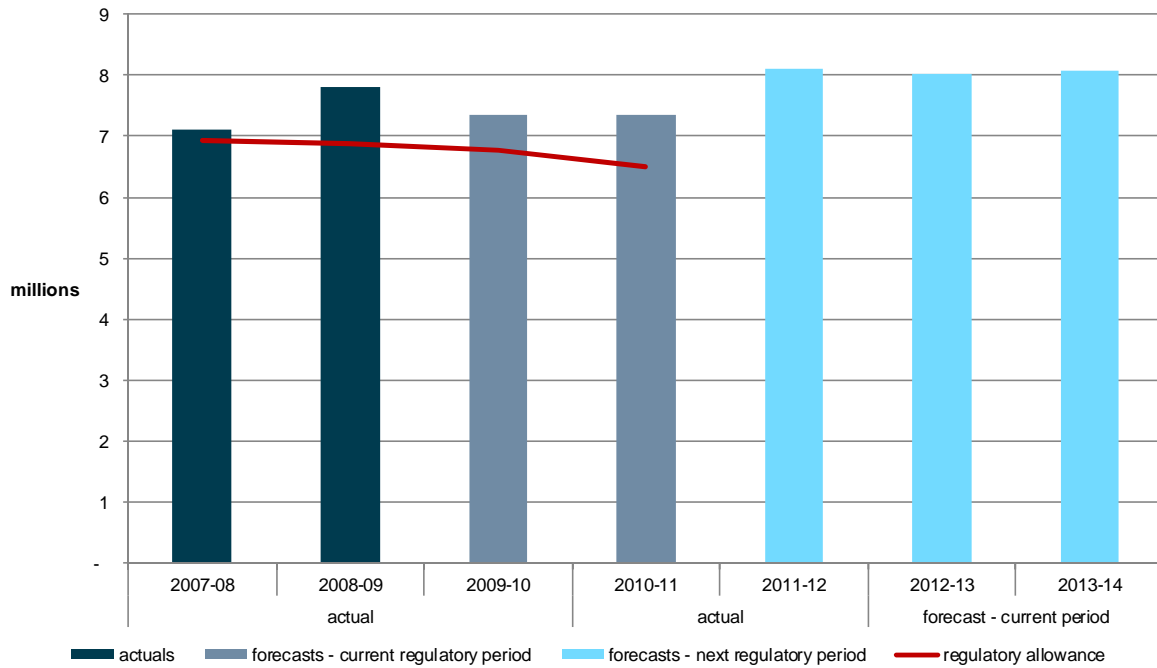
*Source: IPART 'Review of Bulk water charges for State Water Corporation, Water – Determination' June 2010. Revenue for 2013-14 includes MDBA cost recovery, however revenue over 2014-17 does not.

State Water has proposed \$24.19 million in operating expenditure for the Murrumbidgee valley for the next regulatory period. The annual average level of operating expenditure proposed for the next regulatory period is 8.94 per cent greater compared to the annual average level in the current regulatory period.

The major areas of operating expenditure proposed for the next regulatory period are Routine Maintenance (\$6.62 million) and Water Delivery and Other Operations (\$4.08 million).

Chart 3.33 shows State Water's operating expenditure over the current regulatory period and IPART's approved level of operating expenditure. It also shows State Water's proposed operating expenditure over the next regulatory period.

Chart 3.33 State Water's actual, forecast for 2012-14 and proposed operating expenditure for 2014-17 for the Murrumbidgee valley (\$2013-14)

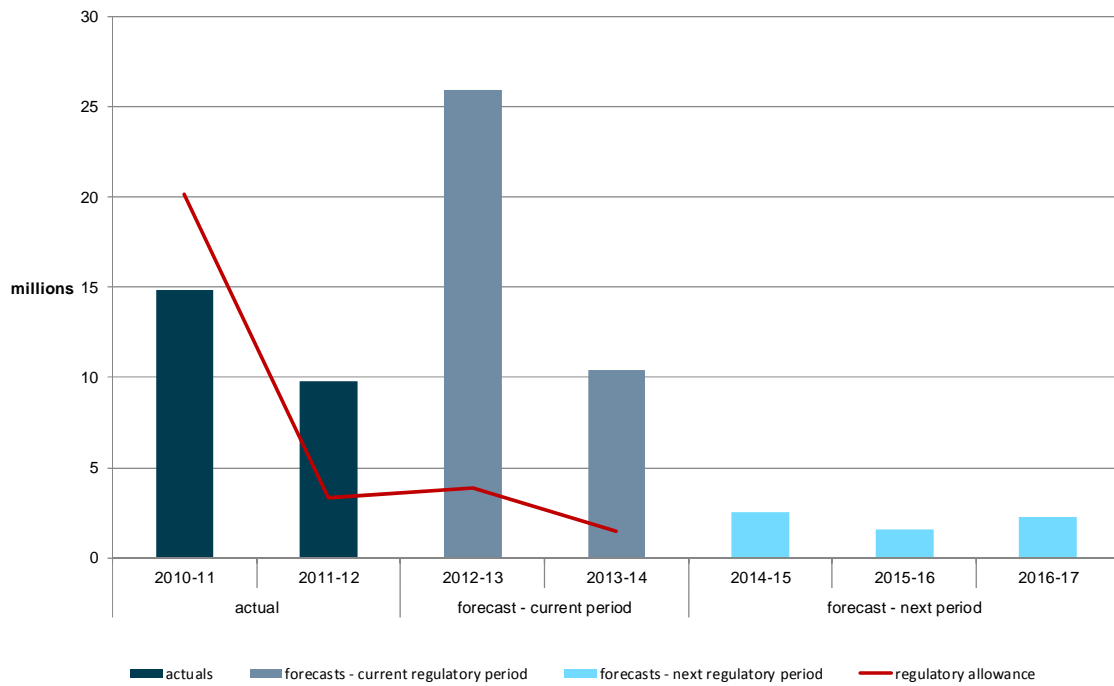


State Water has proposed \$6.35 million in capital expenditure for the Murrumbidgee valley for the next regulatory period. The annual average level of capital expenditure proposed for the next regulatory period is 86 per cent below the annual average level in the current regulatory period.

The major areas of capital expenditure proposed for the next regulatory period are Water Delivery and Other Operations (\$2.46 million), Renewal and Replacement (\$2.09 million) and Corporate Systems (\$1.79 million).

Chart 3.34 shows State Water's capital expenditure over the current regulatory period and IPART's approved level of capital expenditure. It also shows State Water's proposed capital expenditure over the next regulatory period.

Chart 3.34 State Water's actual, forecast for 2012-14 and proposed capital expenditure for 2014-17 for the Murrumbidgee valley (\$2013-14)



3.2.10 Fish River water supply area

State Water has proposed changes to regulated charges for the Fish River water supply scheme. This includes a single tier usage charge for minor customers, the introduction of an annual water service charge for minor customers, and the introduction of connection and disconnection fees.

State Water proposes the following charges for the Fish River water supply scheme.

Table 3.24 State Water proposed charges for Fish River water supply scheme

	2014-15	2015-16	2016-17
Raw water			
<i>Major customers (i.e. Delta Electricity)</i>			
Minimum annual quantity (MAQ) access charge (\$/kL)	\$0.39	\$0.46	\$0.53
Usage charge (\$/kL)	\$0.42	\$0.31	\$0.21
<i>Minor customers</i>			
Annual water service charge	\$78.17	\$91.06	\$105.56
Annual usage up to 200 kL (\$/kL)	\$0.42	\$0.31	\$0.21
Annual usage over 200 kL (\$/kL)	\$0.81	\$0.77	\$0.74
Filtered water			
<i>Minor customers</i>			
Annual water service charge	\$109.82	\$127.93	\$148.31
Annual usage up to 200 kL (\$/kL)	\$0.68	\$0.51	\$0.34
Annual usage over 200 kL (\$/kL)	\$1.23	\$1.15	\$1.09

Table 3.25 State Water proposed Fish River water supply scheme connection and disconnection fees

Connection fee		
	Labour cost	\$384.38
	Meter cost	\$76.38
	Total connection fee	\$461.26
Disconnection fee		
	Labour cost	\$256.25
	Total disconnection fee	\$256.25

State Water is proposing that the revenue required to recover costs in Fish River will be 2 per cent more in 2016-17 compared to the revenue required in 2013-14. See table 3.26 below.

Table 3.26 State Water proposed revenue requirement for the Fish River water supply scheme (\$2013-14, \$million)

2013-14	2014-15	2015-16	2016-17
(current*)			
10.20	10.31	10.29	10.44

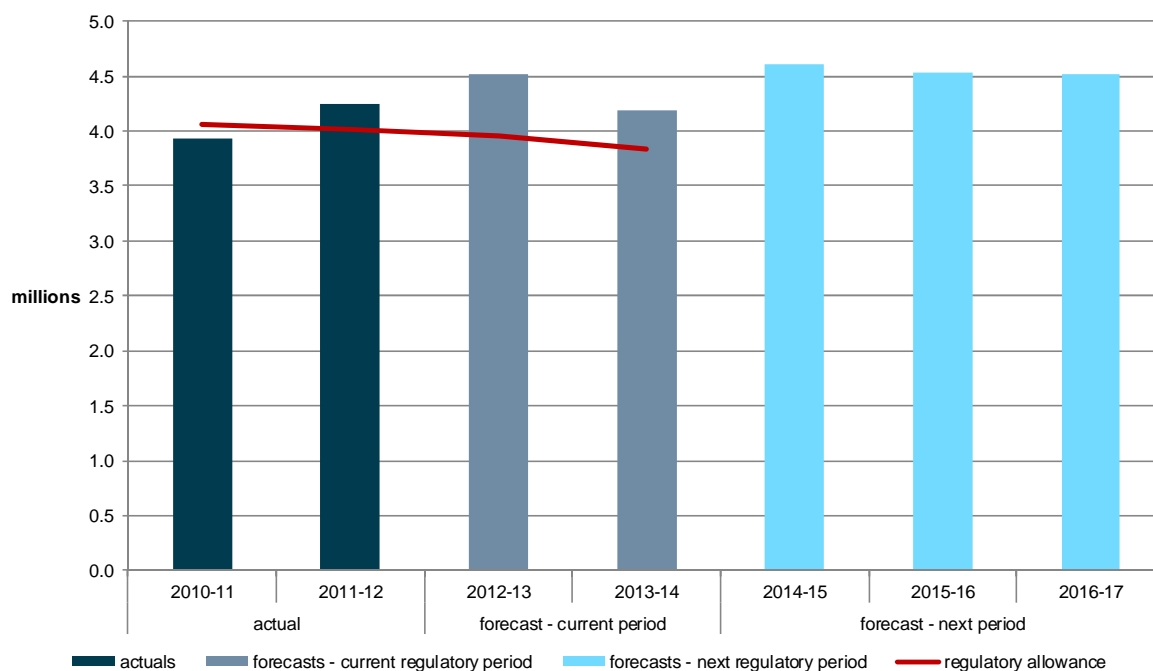
*Source: IPART 'Review of Bulk water charges for State Water Corporation, Water – Determination' June 2010.

State Water has proposed \$13.65 million in operating expenditure for the Fish River Water Supply Scheme for the next regulatory period. The annual average level of operating expenditure proposed for the next regulatory period is 7.78 per cent greater than the annual average level in the current regulatory period.

The major areas of operating expenditure proposed for the next regulatory period are Water Delivery and Other Operations (\$4.16 million) and Routine Maintenance (\$3.84 million).

Chart 3.35 shows State Water's operating expenditure over the current regulatory period and IPART's approved level of operating expenditure. It also shows State Water's proposed operating expenditure over the next regulatory period.

Chart 3.35 State Water's actual, forecast for 2012-14 and proposed capital expenditure for 2014-17 for the Fish River water supply area

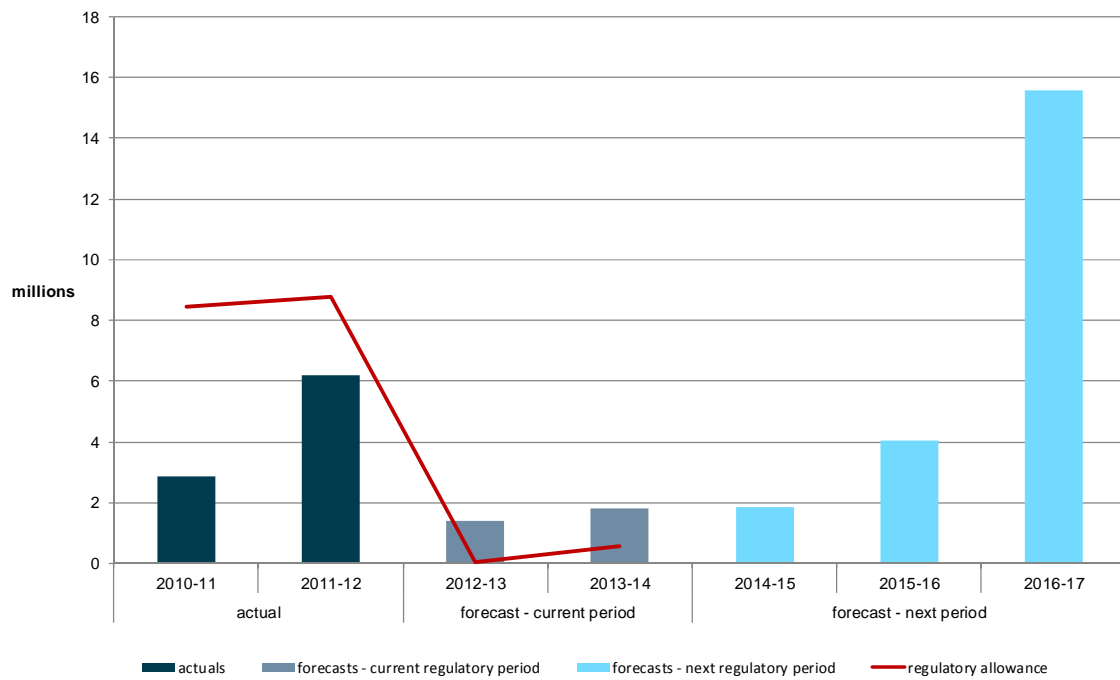


State Water has proposed \$21.45 million in capital expenditure for the Fish River Water Supply Scheme for the next regulatory period. The annual average level of capital expenditure proposed for the next regulatory period is 133 per cent greater than the annual average level in the current regulatory period.

The major areas of capital expenditure proposed for the next regulatory period are Dam Safety Compliance (\$13.12 million) and Renewal and Replacement (\$4.83 million).

Chart 3.36 shows State Water's capital expenditure over the current regulatory period and IPART's approved level of capital expenditure. It also shows State Water's proposed capital expenditure over the next regulatory period.

Chart 3.36 State Water's actual, forecast for 2012-14 and proposed capital expenditure for 2014-17 for the Fish River water supply area (\$2013-14)



Questions for stakeholders on State Water's proposed operating and capital expenditure:

For the valley in which you receive bulk water supply services from State Water, how do you view the changes in operating and capital expenditure proposed by State Water in the 2014-17 regulatory period in terms of:

- prudence and efficiency?
- the reasons for the expenditure put forward by State Water in its pricing application?
- the level of expenditure proposed and expenditure profile each year over the 2014-17 regulatory period?
- State Water's capacity to deliver major expenditure programs?
- whether the changes in expenditure are likely to impact on the level of service you receive from State Water?
- whether the changes in expenditure are likely to have other implications (e.g. for public health and safety, environmental protection)?

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