



Review of WaterNSW's prices for the
Murray River to Broken Hill Pipeline

Draft Report

June 2022

Water >>



Tribunal Members

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Invitation for submissions

IPART invites comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

Submissions are due by Friday, 9 September 2022

We prefer to receive them electronically via our [online submission form](#). You can also send comments by mail to:

2021 Water NSW Murray River to Broken Hill Pipeline review
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop, Sydney NSW 1240

If you require assistance to make a submission (for example, if you would like to make a verbal submission) please contact one of the staff members listed above.

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The Independent Pricing and Regulatory Tribunal (IPART)

Further information on IPART can be obtained from [IPART's website](#).

Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders, past, present and emerging.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

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1 Water transportation prices to decrease

We have set draft prices that WaterNSW can charge customers for water transportation services provided by the Murray River to Broken Hill pipeline (the WaterNSW Pipeline). These prices will apply from 1 January 2023 until 30 June 2026 to WaterNSW's 2 customers:

- Essential Water, the supplier of water and wastewater services to customers in the Broken Hill region
- a small number of offtake customers located along the WaterNSW Pipeline.

We last set prices for these services in 2019, shortly after the WaterNSW Pipeline was built. Since then, the WaterNSW Pipeline has secured water supply in the Broken Hill region, which is critical given its arid climate, history of drought and need to manage elevated levels of lead in the environment.

Under our draft prices over the next 4 years, bills would decrease for Essential Water by around 21% and offtake customers by around 16%, before inflation. To set these draft prices, we considered the reasonable:

- ongoing costs of running the WaterNSW Pipeline
- financing costs of the WaterNSW Pipeline
- the number of customers who will share these costs and the amount of water the WaterNSW Pipeline is expected to transport for its customers over the next 4 years.

We looked at the money WaterNSW spent over the last 3 years, as well as the money WaterNSW proposes to spend over the next 4 years. Our draft decision is to accept most of what WaterNSW has proposed, but also to make some adjustments in areas where we think it is achievable for the WaterNSW Pipeline to provide better value for money. We have also decided to set a lower rate of return for the WaterNSW Pipeline, based on our standard approach.

We looked at the volume of water the WaterNSW Pipeline would transport over the next 4 years and found that WaterNSW's expectations are broadly reasonable. This means the WaterNSW Pipeline would be used to meet almost all of the water needs of the Broken Hill region.

This Draft Report provides a summary of our key decisions and customer outcomes. We have prepared a [Draft Technical Report](#), which provides full details of our analysis, full list of our draft decisions and reasons for them.

The scope of our review is limited to the prices that WaterNSW can charge for services provided by the WaterNSW Pipeline. Maximum prices for the bulk water, water management services, and water and wastewater services to customers in Broken Hill are set by IPART under separate reviews. Our [review of Essential Water's prices](#) has taken account of the NSW Government's decision to subsidise the costs of the WaterNSW Pipeline.

2 Our draft decisions on prices and bills

The WaterNSW Pipeline consists of a 270km subterranean pipeline, pumping stations and bulk water storage facility for transporting, storing and delivering bulk water from the Murray River at Wentworth to Broken Hill and surrounding communities (shown below).

Figure 1 The WaterNSW Pipeline transports water from the Murray River to Broken Hill



Source: Adapted from Water NSW schematic of the Broken Hill Pipeline, see [Pricing proposal by Water NSW – Plain English Summary - June 2021](#)

In 2016 and 2017, the NSW Government directed WaterNSW to construct, operate and maintain the WaterNSW Pipeline. This was to secure the long-term water supply for Essential Water, which provides water and wastewater services in Broken Hill and its surrounds. In addition to transporting water for Essential Water, the WaterNSW Pipeline also transports water to a small number of offtake customers located along the pipeline.

The sections below summarise our draft decisions on prices for water transportation services provided by the WaterNSW Pipeline.

2.1 Water transportation bills for Essential Water would decrease

We maintained the current price structure of splitting prices between a variable usage price and a fixed access price. Under our draft decisions, the usage and access prices for Essential Water would decrease (as shown in Table 2.1). In section 3 of this Draft Report, we discuss our approach to setting costs for the WaterNSW Pipeline over the next 4 years.

Table 2.1 Draft prices for Essential Water (\$2021-22) - without inflation

	2021-22	2022-23	2023-24	2024-25	2025-26	Change 2021-22 to 2025-26
Usage price, \$ per ML	212.52	206.85	206.82	206.61	206.06	-3.0%
Access price, \$ per day	67,281	52,973	52,973	52,973	52,973	-21.3%

Note: the usage price for Essential Water includes an allowance for evaporative issues.
Source: IPART analysis, WaterNSW, [Pricing Proposal to IPART](#), June 2021, p 76.

Under our draft decisions, Essential Water's yearly bills to transport water through the WaterNSW Pipeline would decrease by around 21% (before inflation) compared to current bills. Essential Water's bills would then remain mostly stable over the next 3 years (shown in Table 2.2). Prices and bills for Essential Water are currently covered by a subsidy paid by the NSW Government on behalf of NSW taxpayers. This is discussed in more detail in our concurrent [review of prices that Essential Water can charge for water and wastewater services in Broken Hill](#).

Table 2.2 Draft bills for Essential Water (\$2021-22) - without inflation

	2021-22 (current)	2022-23 ^a	2023-24	2024-25	2025-26	Change 2021-22 to 2025-26
Usage bill	1,189	1,148	1,143	1,137	1,130	-5.0%
Access price bill	24,558	19,335	19,388	19,335	19,335	-21.3%
Total bill	25,747	20,483	20,531	20,473	20,465	-20.5%

a. The access price component of the bill will increase in 2023-24 because it will be a leap year.

Source: IPART analysis

Each year, we adjust WaterNSW's prices for inflation. When inflation is included, prices would still decrease, but at a lower rate. We will continue to adjust prices for inflation every year until 30 June 2026, as future inflation information becomes available.

Taking inflation of 5.1% into account, Essential Water would pay an annual bill of around \$21.5 million under our draft prices in 2022-23. This is about \$4.2 million lower than the annual bill under WaterNSW's proposed prices.

2.2 Water transportation bills for offtake customers would also decrease

Similar to how we set prices for Essential Water, we maintained the current price structures for offtake customers. Under our draft decisions, the usage and fixed prices for offtake customers are also declining (as shown in Table 2.3).

Table 2.3 Draft prices for offtake customers (\$2021-22, without inflation)

	2021-22	2022-23	2023-24	2024-25	2025-26
Usage price, \$ per kL	0.21	0.21	0.21	0.21	0.21
Fixed price, \$ per day	20.78	17.32	17.32	17.32	17.32

Note: Due to rounding, the usage price appears flat.
Source: IPART analysis, WaterNSW, [Pricing Proposal to IPART](#), June 2021, p 78.

Under our draft decisions, yearly bills for a medium-sized offtake customer would decrease by around 16% (before inflation) compared to current bills, and then remain relatively stable over the next 3 years (shown in Table 2.4).

Table 2.4 Draft bills for offtake customers (\$2021-22, without inflation)

	2021-22 (current)	2022-23	2023-24 ^a	2024-25	2025-26	Change 2021-22 to 2025-26
Small customers (0.5 ML)						
Usage bill	106	103	103	103	103	-3.0%
Fixed price bill	7,585	6,320	6,338	6,320	6,320	-16.7%
Total bill	7,691	6,424	6,441	6,424	6,423	-16.5%
Medium customers (1 ML)						
Usage bill	213	207	207	207	206	-3.0%
Fixed price bill	7,585	6,320	6,338	6,320	6,320	-16.7%
Total bill	7,797	6,527	6,545	6,527	6,527	-16.3%
Large customers (5 ML)						
Usage bill	1,063	1,034	1,034	1,033	1,030	-3.0%
Fixed price bill	7,585	6,320	6,338	6,320	6,320	-16.7%
Total bill	8,647	7,355	7,372	7,353	7,351	-15.0%

a. The fixed price component of the bill will increase in 2023-24 because it will be a leap year.

Source: IPART analysis

Taking inflation of 5.1% into account, medium-sized offtake customers would pay an annual bill of \$6,860 under our draft prices in 2022-23. This is around 12% lower than current bills.

Under WaterNSW's proposed prices, medium-sized offtake customers would pay an annual bill of \$7,989 in 2022-23 (including inflation). This is around \$1,130 higher than the annual bill under our draft prices.

3 How we determined these draft prices

In making our draft decisions on prices, we:

- considered WaterNSW's pricing proposal for the WaterNSW Pipeline and community's feedback on the proposal and our Issues Paper
- assessed the reasonable costs of providing reliable water transportation services to in Broken Hill, so that customers pay no more than necessary
- assessed the forecast demand for the WaterNSW Pipeline's services and how it could affect future prices.

The sections below outline each of these steps in more detail.

3.1 A small group of stakeholders provided feedback on WaterNSW's proposed prices

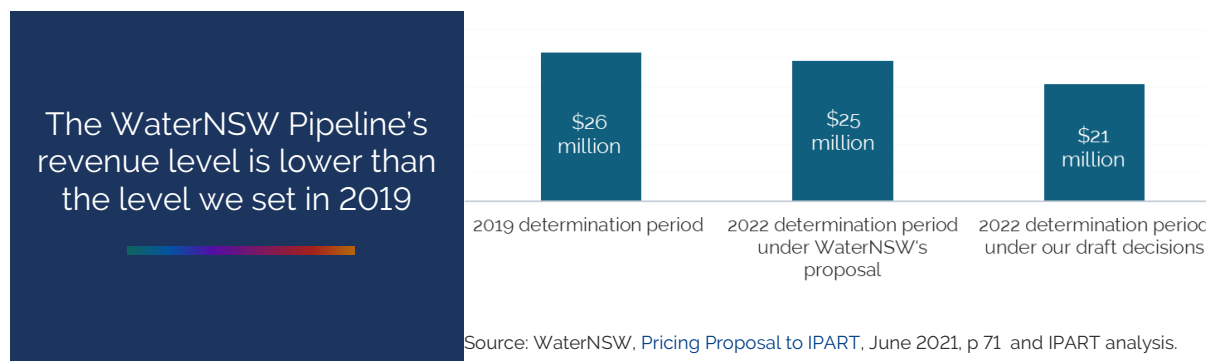
In September 2021, we released an [Issues Paper](#) which discussed the key issues we identified from WaterNSW's proposal. We received 3 submissions from Essential Water, Public Interest and Advocacy Commission (PIAC) and WaterNSW. Submissions covered a range of issues, for example:

- Essential Water supported the proposed decrease to prices it pays to transport water via the WaterNSW Pipeline, as WaterNSW Pipeline costs are the largest component of its operating costs.¹
- PIAC raised concerns about whether existing pricing arrangements for the WaterNSW Pipeline encourage water users to conserve and use water in the most efficient way. PIAC considers the proposed prices do not provide Essential Water and other large users with enough incentive for sustainable water use.²
- WaterNSW's submission was focused on operating costs, forecast sales volumes and risk allocation. WaterNSW proposed higher operating costs to cover its corporate overheads allocated to the WaterNSW Pipeline. It also proposed to set forecast sales volume to meet most of water needs in Broken Hill. In addition, WaterNSW proposed to pass on some cost changes to customers if certain external events occur. These proposals are in line with WaterNSW's original pricing proposal.³

3.2 Costs to deliver reliable water transportation services in Broken Hill would decrease

When we set prices for a regulated business like WaterNSW, we generally aim to set prices to cover the reasonable costs of providing services to customers. We assessed the costs of providing water transportation services to Essential Water and its offtake customers. We engaged expert consultants to provide advice on whether WaterNSW's proposed costs for the WaterNSW Pipeline are reasonable.

Based on our assessment of the WaterNSW Pipeline's costs, our draft decision is to set the amount of revenue WaterNSW can recover through prices at around \$21 million on average per year, over the next 4 years. Our draft decision on the revenue level is around 16% lower than WaterNSW's proposed revenue level for the WaterNSW Pipeline, and 21% lower than the revenue level we set in the 2019 review, when compared on an average yearly basis.



There are 2 main reasons for the difference between WaterNSW's proposal and the draft revenue level we have set:

1. The rate of return to finance the WaterNSW Pipeline has declined since our last review of prices in 2019.
2. We found some opportunities for WaterNSW to lower the operating costs of the WaterNSW Pipeline and have set the revenue level to reflect these opportunities. We also expect it to become more productive over time and have applied a continuing efficiency target to operating costs. This target is based on long-term trends in productivity across the whole economy.

The sections below discuss each of these reasons in more detail.

3.2.1 The WaterNSW Pipeline's financing costs have decreased since our last review

In 2019, WaterNSW had to raise a significant amount of money to finance the construction of the WaterNSW Pipeline. Financing costs (or return on assets) are ongoing and make up around 52% of the WaterNSW Pipeline's revenue level under our draft decision. When setting prices, IPART makes an allowance using a standard method to cover these financing costs, which we call the rate of return. Generally, a higher rate of return leads to higher prices.

WaterNSW proposed a rate of return of 3.7% for the WaterNSW Pipeline, which is slightly lower than the rate of return used to set prices in 2019 (4.0%). WaterNSW proposed a change to the way inflation expectations are factored into the calculation of the rate of return. We have decided to maintain our standard method and have set the draft rate of return at 2.9%.

The lower rate of return is due to the relatively low current interest rate environment. Should interest rates increase or decrease over the 2022 determination period, the net changes would be factored in prices at the next determination. This is because under our standard method, we have a mechanism that adjusts the rate of return each year to account for changes in interest rates. This helps protect customers and WaterNSW by ensuring that the rate of return reflects new information.

More information on how we set the rate of return, or the Weighted Average Cost of Capital (WACC), is available in Appendix B of our [Draft Technical Paper](#).

3.2.2 We found opportunities to reduce WaterNSW's proposed operating costs for the WaterNSW Pipeline

Operating costs represent about 20% of the WaterNSW Pipeline's required revenue level over the next 4 years. The WaterNSW Pipeline incurs 2 types of operating costs:

- energy costs for transporting water from Murray River to Broken Hill
- other costs, like contractors, corporate overheads and cost of preparing regulatory submissions.

Our draft decision is to set prices based on operating costs of around \$4.1 million on average per year over the 2022 determination period. We have set costs lower than WaterNSW's proposal based on advice from expert cost consultants (AECOM and the CIE) who found opportunities to reduce costs. This was supported by our own further analysis using data provided by WaterNSW.

Under our draft decisions, we set a reasonable cost for energy at around \$1.2 million per year. Energy costs vary depending on the energy demand of the WaterNSW Pipeline and what the energy price is at the time. When we last set prices in 2019, we carefully considered how to set a reasonable energy cost allowance. Because the WaterNSW Pipeline was not yet operational, we relied on a set of assumptions to estimate the WaterNSW Pipeline's energy demand. We also developed an approach to forecast energy prices based on market data to ensure that the energy costs we set are no higher and no lower than they need to be.

For this review, we now have 2 years' worth of actual energy demand data to help estimate energy costs over the next 4 years. We consider it is reasonable to use some of this actual data to determine the future energy demand of the WaterNSW Pipeline. Our draft decision is different from WaterNSW's proposal. That is, WaterNSW proposed that we continue to use similar energy demand assumptions from the 2019 review to estimate energy costs.

In addition, WaterNSW proposed to use the same approach that was used in 2019 when forecasting energy prices, which we consider is broadly reasonable. However, WaterNSW proposed to introduce an energy cost adjustment mechanism that helps protect both customers and WaterNSW if energy price forecasts turn out to be materially different from our draft decisions. Under this mechanism, WaterNSW proposed to monitor the changes in energy prices use to set the energy cost allowance for the 2022 determination period. Then, the mechanism would pass on some of the changes in energy prices over the 2022 determination period next time we review prices for the WaterNSW Pipeline. Customers could be compensated if energy prices were lower than forecast and WaterNSW could be compensated if energy prices were higher than forecast.

Our draft decision is to set other costs at around \$2.9 million for the WaterNSW Pipeline. This is around 23% higher than what we used to set prices in our last review in 2019, but lower than the level proposed by WaterNSW. When compared with costs set in our 2019 review, the difference is driven by our draft decision on corporate overheads. We have taken this review as an opportunity to make sure the way we set corporate overheads for the WaterNSW Pipeline lines up with how we set them for other parts of WaterNSW.^a

3.3 The WaterNSW Pipeline will continue to be used to meet almost all of Broken Hill's water demand

To set prices, we divided the WaterNSW Pipeline's reasonable costs by customer types and amount of water we expect it to transport over the next 4 years. Our draft prices are closely aligned with the WaterNSW's forecasts for customer numbers and sales volumes, which we consider are reasonable.

Both WaterNSW and Essential Water expect the WaterNSW Pipeline will be used to transport water meet almost 100% of the Broken Hill community's water needs. This is different to what we expected in our 2019 review. At the time, we estimated Essential Water would use the WaterNSW Pipeline to meet 70% of the community's water needs.

For the 2022 determination period, our draft decision is to set the WaterNSW Pipeline's annual forecast water sales volumes to Essential Water at around 5,500 ML per year. Based on evidence provided, we agree with WaterNSW and Essential Water that it is efficient to use the WaterNSW Pipeline to meet almost all of the water needs of Broken Hill.



PIAC raised concerns about whether the prices we set for the WaterNSW Pipeline would encourage sustainable use of water in Broken Hill. The draft prices we have set reflect the reasonable cost of providing water transportation service in Broken Hill. Given the arid climate and the need to use water to maintain greenspaces and reduce exposure to lead, we did not consider further incentives to reduce water use. WaterNSW's customers (Essential Water and offtake customers) secure access to water by having licences that entitle them to access water for town water supply, similar to any other water service providers in NSW. Essential Water can also manage the community's water use during drought periods through water restrictions.

^a WaterNSW provides bulk water supply in Greater Sydney and rural areas in NSW, water transportation services in Broken Hill and also part of being part of the Water Administration Ministerial Corporation.

4 We value your feedback on our draft decisions

Our draft decisions and draft recommendations are listed and explained in our [Draft Technical Paper](#). We welcome your views on these draft decisions and draft recommendations.

We are seeking submissions to our Draft Customer and Technical Reports from all interested stakeholders by 9 September 2022. We will hold a public hearing on 30 August 2022, which will provide the community with an opportunity to provide feedback and comments on our Draft Report.



In making final decisions and setting prices, we will consider all feedback we receive in response to this Draft Report (including Draft Technical Paper) and at our public hearing.

Have your say

Your input is critical to our review process. [Submit feedback »](#)

You can get involved by making a submission, submitting feedback or attending a public hearing. [Attend the public hearing »](#)

We are seeking feedback by 9 September 2022 on our draft decisions and the issues we have identified.

¹ Essential Water, submission to IPART's Issues Paper for the 2021 Review of Essential Energy's water and wastewater prices for Broken Hill, October 2021, p 1.

² Public Interest Advocacy Centre, submission to IPART's Issues Paper for the 2021 Review of Essential Energy's water and wastewater prices for Broken Hill, October 2021, p 5.

³ WaterNSW, submission to IPART's Issues Paper for 2021 Review of WaterNSW's Murray River to Broken Hill Pipeline prices, October 2021, pp 4-6.

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