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9 September 2022

2022 Draft Determination of Essential Energy's water and
wastewater prices for Broken Hill
Independent Pricing and Regulatory Tribunal

Via online submission

**Essential Water submission to the 2022 Draft Determination of Essential Energy's water and
wastewater prices for Broken Hill**

Essential Water welcomes the opportunity to provide feedback to the Independent Pricing and Regulatory Tribunal (IPART) on its Draft Decisions and Recommendations ("Draft Determination") for Essential Energy's water and wastewater prices for Broken Hill.

IPART's Draft Determination is largely consistent with the key positions taken in our proposal and as such, we agree with most of the Draft Decisions and Recommendations made. We are encouraged by the commitment from the NSW Government to the Broken Hill community, to continue to subsidise the costs of the Broken Hill pipeline through to the end of the upcoming Determination period. However, we are concerned the operating expenditure allowance set for Essential Water is not sufficient to enable the prudent and efficient delivery of water and sewerage services to our customers through to June 2026.


Essential Water's remote location, relatively small customer base and low customer density means upward pressure on our operating costs. These characteristics need to be taken into account to ensure our expenditure targets are achievable, and do not run the risk of compromising our quality of service. The Draft Determination's reductions to Essential Water's operating expenditure allowances are too large and rapid, given the circumstances faced by Essential Water. There are limited opportunities to achieve the cost reductions suggested.

Since we submitted our proposal to IPART in June 2021, the economic outlook has changed significantly. External cost and supply pressures are now affecting many businesses in New South Wales and our remote location is magnifying this issue. Trends for expenditures such as electricity, hire services and materials are increasing well above the anticipated trajectory. The necessary planned upgrades to Essential Water's infrastructure are likely to result in materially higher actual costs than those proposed more than a year ago.

We suggest that the reductions and efficiencies applied in the Draft Determination are not appropriate for Essential Water, particularly in light of the economic environment that we are now operating in. The attached report provides further evidence in support of this view.

Essential Water is happy to discuss these issues further. Please contact our Acting Head of Regulatory Affairs, Mary-Clare Crowley on [REDACTED].

Yours sincerely



Natalie Lindsay
Acting Executive General Manager Corporate Affairs

2022 Draft Determination on Essential Water's water and wastewater prices for Broken Hill

Submission



September 2022

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Executive summary

In June 2022, IPART published its Draft Determination on the Maximum prices for water and wastewater services supplied by Essential Energy in Broken Hill from 1 January 2023, summarising its position in its Draft Report, and setting out its reasoning, Draft Decisions and Recommendations in its Draft Technical Report (together, the Draft Determination). This document represents our submission in response to IPART's Draft Determination.

We support most of the Draft Decisions and Recommendations made by IPART

IPART has prepared a considered Draft Determination which, after careful review and assessment, is consistent with the key positions set out in our proposal on demand, capital expenditure and price structure. Accordingly, Essential Energy supports most of the Draft Decisions and Recommendations made by IPART in its Draft Determination.

We support IPART's decisions relating to the form of regulation, demand forecasts and price structure. We recognise that there is scope to improve our output measures, and look forward to hearing customer feedback on the metrics they value.

However, we are concerned the operating expenditure allowance set by IPART is not sufficient to enable the prudent and efficient delivery of water and sewerage services to our customers.

Care must be taken when comparing Essential Water's operating expenditure to other water businesses

Essential Water's remote location, relatively small customer base and low customer density means upward pressure on our operating costs. These characteristics need to be taken into account to ensure our expenditure targets are achievable, and do not run the risk of compromising our quality of service.

The operating expenditure targets in the Draft Determination are too ambitious

The Draft Determination's reductions to Essential Water's operating expenditure allowances are too large and rapid, given the circumstances faced by Essential Water. Our proposed allowances include cost reductions relative to current levels and continuing reductions over the 2022 determination period that are more accurate estimates of the efficient costs of a utility in Essential Water's circumstances.

For example, we have limited flexibility to reduce costs at the rate proposed by IPART – reducing labour costs will likely have implications for our service delivery. Our hire services costs reflect the need for specialist input and our fleet costs are a function of an improved allocation of these costs and Essential Energy's investments in safety.

We do not have the capacity to share resources between Essential Energy and Essential Water to deliver cost savings as recommended by IPART. Any overlap is limited to activities that are general in nature, where we are not experiencing staff shortages. Some of these generalised services are usually provided through corporate functions such as HR, finance, customer contact etc and are already shared between Essential Energy and Essential Water through our corporate overheads.

We are facing unique cost pressures in the current economic environment

Since we submitted our proposal to IPART in June 2021, the economic outlook has changed significantly. Our proposal was developed in a relatively stable economic environment. Since that time, inflation in Australia has risen to its highest level since the early 1990s and is continuing to rise reflecting the combination of strong demand, global supply constraints and high energy prices. We are already seeing the impact of this economic environment on our operating and capital expenditure, including increases in materials costs and capital expenditure. Our remote location is exacerbating these issues and means we are now seeing cost increases well above the consumer price index.

We consider that applying a continuing efficiency factor to our operating and capital expenditure allowances, as IPART has proposed in its Draft Determination, is out of step with the current economic environment. The very significant impact of the current economic environment on our expenditure renders an additional efficiency factor unnecessary. We will have to achieve significant continuing efficiencies to remain within our proposed expenditure allowances, which were derived in a significantly lower cost environment.

1. About this submission

Essential Energy provides water and sewerage services to the communities of Broken Hill, Menindee, Sunset Strip and Silverton, through its water business - Essential Water.

The prices charged by Essential Water for the provision of water and sewerage services to Broken Hill and surrounding communities are regulated by the Independent Pricing and Regulatory Tribunal of NSW (IPART) under the NSW *Independent Pricing and Regulatory Tribunal Act 1992* (the IPART Act). IPART's 2019 determination set maximum prices for Essential Water for the three-year period from 1 July 2019 to 30 June 2022 (the 2019 determination period). IPART is currently considering the prices for Essential Water's services in Broken Hill from 1 January 2023.

In June 2021 we published our pricing proposal, setting out Essential Energy's 30 June 2021 pricing submission, outlining its proposed water and sewerage expenditure and prices for the 5-years from 1 July 2022 (our proposal).

In June 2022, IPART published its Draft Determination on the Maximum prices for water and wastewater services supplied by Essential Energy in Broken Hill from 1 January 2023, summarising its position in its Draft Report, and setting out its reasoning, Draft Decisions and Recommendations in its Draft Technical Report (together, the Draft Determination). This document represents our submission in response to IPART's Draft Determination.

1.1 Our approach to this submission

IPART has prepared a considered Draft Determination which, after careful review and assessment, is consistent with the key positions set out in our proposal on demand, capital expenditure and price structure. Accordingly, Essential Energy supports most of the Draft Decisions and Recommendations made by IPART in its Draft Determination.

We support IPART's decisions relating to the form of regulation, demand forecasts and price structure. We recognise that there is scope to improve our output measures, and look forward to hearing customer feedback on the metrics they value. However, we are concerned the operating expenditure allowance set by IPART is not sufficient to enable the prudent and efficiency delivery of water and sewerage services to our customers.

This submission provides IPART with the information required to ensure a robust Final Determination which takes into account our key cost drivers and the current economic context. It considers the implications of Essential Water's unique operating characteristics for our operating expenditure (Section 2), provides further information about the key drivers of our operating expenditure over the 2022 determination period (Section 3) and discusses the issues associated with the current inflationary economic context (Section 4).

The Appendix presents Essential Energy's response to each of the Draft Decisions and Recommendations made by IPART in its Draft Determination.

2. Essential Water's operating expenditure allowances should reflect its unique operating environment

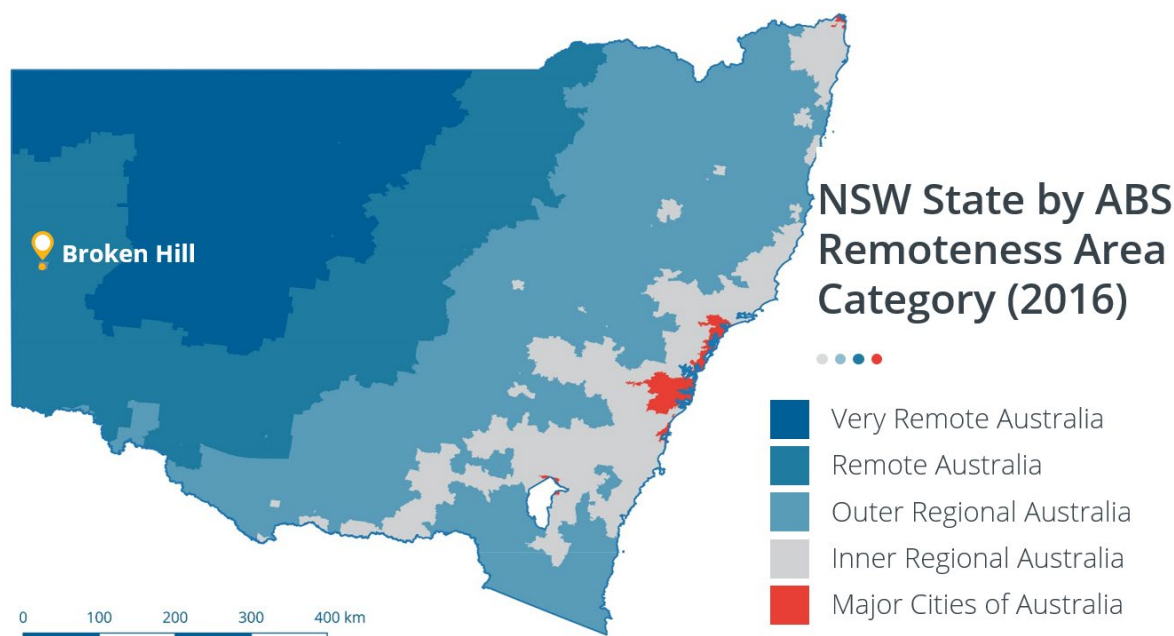
2.1 Care must be taken when comparing Essential Water's operating expenditure to other water businesses

IPART's Draft Determination compares Essential Water's operating costs against the NSW average when making an assessment of its operating expenditure. However, Essential Water has a number of unique characteristics that mean it is difficult to make meaningful comparisons with average water businesses in NSW:

- **Essential Water operates in a remote and outer regional area of NSW.** Essential Water's service area spans the Remote and Very Remote categories in the Australian Bureau of Statistics remoteness area categories (see Figure 1). This creates challenges in attracting and retaining skilled labour, as we discuss in the next section.
- **Essential Water is relatively small compared to water businesses in other areas of NSW.** IPART has previously found that water and wastewater services are characterised by significant economies of scale, which occur when the unit costs of production decreases as the volume of output increases.¹ Water businesses with relatively few customers are unable to access economies of scale available to water businesses with many customers, limiting their capacity to achieve similar levels of operating costs.
- **Essential Water's customers are dispersed across a relatively large service area.** This relatively low density increases the cost to serve relative to other water businesses in NSW.

Each of these characteristics puts upward pressure on Essential Water's efficient operating costs. Any assessment of Essential Water's operating expenditure needs to take into account Essential Water's unique operating context. Failure to do so will result in expenditure targets being set for Essential Water below the efficient costs of supplying our services, which runs the risk that service quality will deteriorate to below acceptable levels.

Figure 1: Essential Water's location



¹ IPART, *Investigation into Water and Wastewater provisions in the Greater Sydney Region* – Final Report, October 2005, p 53.

3. The operating expenditure targets in the Draft Determination are too low

3.1 IPART's proposed operating expenditure reductions do not take into account Essential Energy's circumstances and the current environment

We are committed to delivering cost savings to our customers

Our proposed operating expenditure over the 2022 determination period is lower than 2021-22 levels, and continues to gradually decline over the 2022 determination period – reflecting a level of ongoing efficiency gains, as shown in Figure 2 below.

IPART's draft operating allowances over the 2022 determination period are also lower than 2021-22 levels and continue to decline over the 2022 determination period – but the rate and extent of IPART's reduction is too great, given:

- Our circumstances water and sewerage provider operating in a remote area of the state and serving a relatively small, dispersed customer base with an aging network (as we discuss below)
- The current and forecast outlook for our costs – which means we will likely face cost increases relative to our proposed allowances that are higher than CPI – particularly given our remote location (as we discuss in Section 4).

Our proposed reductions in operating expenditure for the 2022 determination period reflect a more reasonable allowance (and rate of reduction) for efficient operating expenditure for a water utility in our circumstances, particularly given the current outlook, delivering sustainable and achievable operating cost reductions to benefit our customers.

Figure 2: Essential Water's allowed and actual operating expenditure (excluding bulk water)



3.2 We have limited flexibility to reduce headcount to achieve the labour savings assumed by IPART

IPART's Draft Determination included an adjustment to our proposed operating expenditure based on reducing labour costs in future years. IPART accepted AECOM's recommendation that decommissioning of the Menindee Pipeline and completion of the Wills Street wastewater treatment plant (WWTP) projects should help reduce Essential Water's full-time equivalents (FTEs) based on the original business cases.

We maintain the view that the reductions identified in the original business cases for the Menindee Pipeline and Wills Street WWTP were made under very different circumstances and should not be applied using the top-down approach adopted by AECOM. These reductions were identified when staffing levels were at 72 and the long-term sustainable workforce was planned to be 68 FTE. Since then, we have reduced our number of FTEs to 65 through natural attrition and further efficiencies, and this reduced level was reflected in our proposal.

AECOM's findings assumed that further FTE reductions were achievable and should not impact on service levels because they do not take effect until several years in the future. It considered that this would provide Essential Water with opportunities to address risks associated with natural attrition, attraction and retention of new skilled staff and other issues impacting on minimum staffing levels. We consider that there are several key reasons why AECOM's proposed reductions in headcount are unachievable and should be reconsidered for IPART's Final Determination:

- We are already facing challenges associated with maintaining service standards on our aging system while attempting to deliver operating efficiency savings. For example, we have observed an increase in blockages at some sewer pump stations, which we expect reflects the lack of resources available for regular cleaning. Similar issues have arisen in relation to service reservoirs, where scour valves have not been exercised for some time due to resource constraints. This likely resulted in issues with reseating the scour valves at Block 10. In the absence of a dedicated asset inspector, we are currently relying on customers to call in faults with Sewer Access Chambers (SACs) and Vent Poles.² This reactive approach imposes on our customers, impedes our progress to move to a more proactive approach to maintenance, as set out in our proposal, will likely increase costs to customers over time (through bringing forward future capital expenditure requirements), and compromises service quality.
- AECOM acknowledged the limited ability we have to achieve labour savings because of operating constraints. Our proposal explained that our climate, size and location create challenges in attracting and retaining the skilled labour required to maintain, operate and renew our system. Our relatively small size and remote location means we must retain core skill sets in-house, to ensure we have ready access to the resources required to maintain a secure and reliable water supply. It is not possible for Essential Water to readily draw on external labour or other resources at short notice without incurring significant cost. We actively manage our workforce as efficiently as possible by ensuring we multi-skill our workforce where it is feasible, so Essential Water's staff can be deployed across multiple parts of the network and undertake a range of tasks. For example, boiler-makers are trained as fitters, staff working in the water filtration plants are trained to work in the sewage treatment plants and staff working on the water reticulation network are trained to work on the sewerage network).
- As we set out in our proposal, Essential Water has an aging workforce, with 39% of full-time employees between the ages of 56 and 70. We have strategic planning in place to ensure we recruit and train new team members to manage the significant risk associated with retirement of labour with the specialist skills required to deliver our services to customers. We are in the process of appointing two apprentices and one trainee as we roll out our strategic plan. The additional headcount associated with recruiting and training new staff means it is not possible to reduce our headcount as suggested by AECOM.
- As we discuss in Section 4, the current operating environment is placing increasing pressure on our capacity to attract and retain skilled staff. The Reserve Bank's August 2022 *Statement on Monetary Policy* forecasts strong wages growth in response to the tight labour market. Our capacity to compete for this skilled labour is limited by our regulatory allowances, particularly given our remote location. This is an ongoing challenge we face from local employers that are not subject to regulation, like the mines. We have had several roles, including labourer and fitter positions, open for some time without appropriate applicants. The current tight labour market and inflationary pressures exacerbate this situation.

² Vent Poles are located throughout Broken Hill to enable odours to be released from the sewer system.

On balance, the proposed reduction in Essential Water's headcount from IPART's draft decision on the operating expenditure allowance is not feasible and is likely to result in poorer outcomes for our customers. We maintain that a staffing level of 65 FTEs represents minimal safe operating levels for the 2022 determination period.

3.3 Our hire services costs reflect our need to access specialist resources

Essential Water uses hire services to supplement our labour resources on an ongoing basis with specialist skills and resources. Historically, hire costs have fluctuated to take account of annual variability in our need to access these skills and services. AECOM did not agree with our approach to forecasting hire costs and applied reductions to remove some abnormal historical costs which had been used to inform forecasts. We concede to IPART's draft decision to reduce hire services costs, except in the case of FY25 when we will incur additional expenditure for the preparation of our next pricing proposal to IPART. We have reviewed the equivalent costs we incurred for these activities in FY21 and have also taken into account IPART's expectations under its new water regulatory framework. This is particularly in relation to the expectation of deep and expansive levels of customer engagement. We estimate that it is reasonable to expect that contractor costs for regulatory proposal work will be in the order of \$400,000 in FY25. We expect the benefits to customers, through efficiencies and enhanced service levels, will exceed these costs - arising through Essential Energy addressing the "3 Cs" criteria of Customers, Costs and Credibility under the new regulatory framework. Therefore, we consider that our proposed hire service costs for FY25 should be accepted without reduction.

3.4 Fleet cost savings are unachievable

IPART set fleet costs below our proposal, following advice from AECOM that reflects a misunderstanding of our fleet cost drivers.

AECOM analysed the ratio of proposed fleet costs to FTEs and found this ratio to be unstable, calling into question the basis of our fleet forecasts. However, this reflects a simplistic understanding of our fleet costs, which are a function of staff working on projects, rather than staff numbers *per se*. Reducing our headcount will not deliver a commensurate reduction in fleet costs, because our fleet costs reflect activities we are undertaking and the equipment required to undertake our activities, rather than the number of employees.

AECOM assumed investments in fleet over the current period would necessarily drive savings over the 2022 determination period. The investments in fleet over the 2019 determination period involved the renewal and upgrading of Essential Energy and Essential Water's fleet to ensure it is fit-for-purpose via a targeted reduction in age profile and the installation of In-Vehicle Monitoring Systems (IVMS) in all Essential Energy and Essential Water vehicles to ensure the safety of our team. While renewal and upgrading will help deliver efficiencies, the In-Vehicle Monitoring System is a measure to improve the safety of our team, and reflects the cost of doing business safely in remote and regional locations.

Fleet costs are increasing in the future primarily because there will be relatively more operating expenditure allocations for fleet maintenance charges than for capital expenditure. This is consistent with prudent and efficient cost allocation and service delivery and our fleet forecasts reflect the allocation of fleet costs between operating and capital expenditure. Essential Water's fleet charge from Essential Energy is allocated between operating and capital expenditure based on the number of hours Essential Water staff spend on projects. Administration staff and staff on leave do not attract fleet charges. Most of our future capex program will be outsourced to contractors, and therefore will not attract a fleet charge. This means in the future almost all fleet charges from Essential Energy will be allocated to opex. The consequential reduction in allocation of charges to capex was reflected in our proposal.

Taken together, we consider there is insufficient evidence to justify the reduction in fleet costs proposed for the 2022 determination period.

3.5 We have limited capacity to share resources between Essential Water and Essential Energy to reduce costs

The Draft Determination recommends that Essential Water explore opportunities to share resources with Essential Energy and options to overcome constraints. This recommendation draws on AECOM's finding that sharing resources in this way could help address barriers in attracting and retaining skilled staff.

This is an option that Essential Energy has investigated, with the aim of managing costs and overcoming resourcing constraints. However, this option is not practicable for several reasons.

Different skill sets

The skills required for operating Essential Energy and Essential Water are very different. There is limited overlap between the specialist electrical work required by Essential Energy and the specialist water and sewerage work required by Essential Water. In practice, any overlap is limited to a small number of activities that are general in nature, but we are not experiencing staff shortages in those areas – skills and expertise is needed in the water technical and specialist roles.

Resource shortages

Essential Energy does not have spare capacity to provide resources to Essential Water. Essential Energy is facing ongoing challenges to maintain and improve network reliability and resilience, while adapting to increased uptake of new technologies. This has resulted in significant workflows for Essential Energy, which means it does not have spare resources to make available to Essential Water.

No cost savings

Essential Energy is a regulated energy network business, operating within the economic regulatory framework overseen by the Australian Energy Regulator. Any services provided by Essential Energy to Essential Water would need to be provided on a full cost-recovery basis, as required by the AER. This means there would be no cost advantage to Essential Water and its customers from sharing resources – it is equivalent to hire services.

We have not been able to identify any specific opportunities for sharing resources (as suggested by AECOM) and the associated reduction in costs.

4. We are facing unique cost pressures in the current market

4.1 An additional efficiency factor is unnecessary in the current economic environment

Our costs are increasing at a faster rate than CPI

Since we submitted our proposal to IPART in June 2021, the economic outlook has changed significantly. Our proposal was developed in a stable economic environment, adopting an assumed inflation rate of 2.5%.

Since that time inflation in Australia has risen to its highest level since the early 1990s, and is continuing to rise, reflecting the combination of strong demand, global supply constraints and high energy prices as a result of the COVID-19 pandemic and Russia's invasion of the Ukraine. Inflation was 6.1% over the year to June 2022, reflecting pressure on fuel and food prices, global supply chain constraints and the tight domestic labour market. The Reserve Bank's August 2022 *Statement on Monetary Policy*, which sets out its assessment of current economic conditions and the outlook for inflation, forecasts inflation of 7.75% over the current financial year, with inflation expected to remain high until late 2024.

We are already seeing the impact of this inflationary environment on our operating and capital expenditure. Since our proposal was submitted, several of our costs have increased by substantially more than inflation:

- Materials costs for 2021-22 have increased 29% consistent with rising material costs and commodity forecasts in the short to medium term.
- Wholesale electricity prices have more than doubled and are forecast to remain high for some time, with forward prices for FY23 currently trading at around \$200/MWh.
- Quotes from consultants for our capital expenditure projects demonstrate very significant cost increases are likely:

[REDACTED]

The economic environment is also a key concern to our employees as we revisit our Enterprise Agreement.

Construction costs in NSW are increasing faster than CPI, and more than the national average

Official measures of construction costs have risen significantly over the past year driven by external factors, with NSW experiencing a notable spike. The ABS Construction Producer Price Index (output) measures the price change of products as they leave the construction sector, measured from the perspective of the construction sector. Across a variety of indices cost pressures in NSW construction sector have been significant – since September 2020:

- NSW non-residential building construction PPI (output) increased 21% (versus 6% nationally)
- NSW bridges and roads PPI (output) increased 10% (versus 11% nationally)
- Australian heavy and civil engineering construction PPI (output) increased 12%.

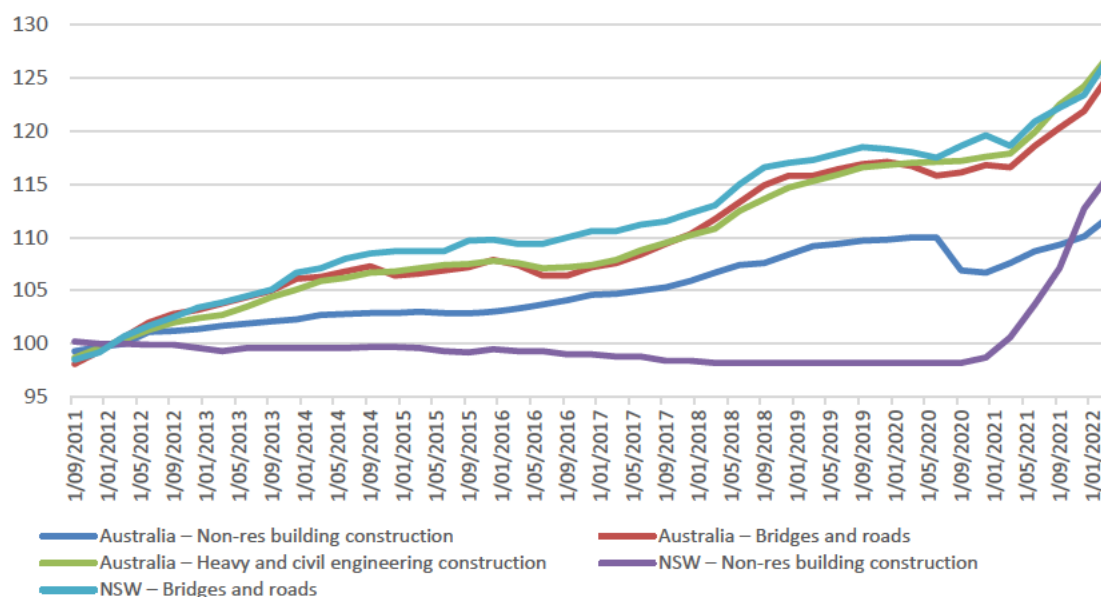
In explaining these in the output prices of the construction industries the ABS referenced external shocks to the industry:³

Supply chain instability and high shipping costs, coupled with ongoing skilled labour shortages is continuing to drive up construction costs this quarter. Strong levels of activity across all construction sectors has enabled builders to pass through cost increases to buyers.

The inflation outlook is uncertain, with the weight of evidence suggesting entities should prepare for materially elevated construction cost inflation across the medium term.

³ ABS, <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/jun-2022#methodology>

Figure 3: Construction Producer Price Indices (Output)



Source: 6427.0 Producer Price Indexes, Australia; Table 17. Output of the Construction industries, subdivision and class index numbers

Our remote location means further cost increases above CPI

The impact of the current economic environment is of particular relevance to Essential Water's operating costs because our remote location means we are seeing cost increases well above the consumer price index. Rawlinsons Australian Construction Handbook sets out regional adjustment factors, to take account of increased costs associated with construction that occurs at a distance from metropolitan centres, where sourcing materials and labour requires additional costs. These indicate, for example, that costs in a regional location such as Cobar can be around 34% higher than in Sydney.⁴

We are committed to delivering ongoing efficiency gains for our customers, but the current economic environment means an additional efficiency factor is not required

We acknowledge that IPART's regulatory framework accounts for overall changes in inflation by adjusting prices in line with actual inflation during the 2022 regulatory period. However, we are experiencing cost increases substantially above inflation.

Against this backdrop, we consider that IPART's application of a continuing efficiency factor to our operating and capital expenditure allowances, as outlined in its Draft Determination, is out of step with the current economic environment. The very significant impact of the current economic environment on our expenditure means that we will already need to achieve efficiency savings to manage our expenditure within the forecasts in our original proposal, and renders an additional efficiency factor unnecessary and excessive.

⁴ See: Cardno, Supplementary Report – Benchmark Datasets – Benchmark Costs for Local Infrastructure, Prepared for the Independent Pricing and Regulatory Tribunal (IPART), November 2021, p 5. [Link](#)

Appendix: Response to IPART Draft Decisions and Recommendations

Table 4: Essential Water response to IPART Draft Decisions

	IPART Draft Decision	Essential Water's position
1.	To adopt a 4-year determination period and to delay the commencement of new prices until 1 January 2023	Accepts IPART's Draft Decision
2.	To set maximum prices for Essential Water services in each year of the determination period (a price cap)	Accepts IPART's Draft Decision
3.	To not accept Essential Water's proposal to have cost pass-through mechanisms for regulatory change, insurance events and catastrophic events	Accepts IPART's Draft Decision
4.	To maintain the efficient carryover mechanism for operating expenditure for the 2022 determination period	Accepts IPART's Draft Decision
5.	To set Essential Water's total operating expenditure allowance for the 2022 determination period at \$54 million, as shown in Table 3.1	Essential Water's total operating expenditure allowance for the 2022 determination period should be adjusted to reflect the updates to expenditure discussed in this submission
6.	To set Essential Water's efficient capital expenditure to be included in the RAB for the 2019 determination period as shown in Table 4.2	Accepts IPART's Draft Decision
7.	To set Essential Water's efficient capital expenditure for the 2022 determination period as shown in Table 4.4	Accepts IPART's Draft Decision, subject to appropriate adjustments to overheads for 2022
8.	To expand Essential Water's existing output measures to align with current best practice, as shown in Table 4.5	Accepts IPART's Draft Decision
9.	To set the notional revenue requirement at \$176.2 million over the 2022 determination period as shown in Table 5.1	Accepts IPART's Draft Decision, subject to expenditure updates set out in this submission
10.	<p>We calculated the RAB for 2018-19 to 2025-26 by using:</p> <p>A 2019-20 opening RAB of \$123.8 million</p> <p>\$35.7 million (nominal) of prudent and efficient historical capital expenditure added to the RAB over the 2019 determination period</p> <p>\$77.3 million of prudent and efficient forecast capital expenditure added to the RAB over the 2022 determination period</p> <p>Essential Water's reported historical and forecast cash capital contributions</p> <p>Essential Water's reported historical and forecast asset disposals of zero</p>	Accepts IPART's Draft Decision, subject to expenditure updates set out in this submission

	IPART Draft Decision	Essential Water's position
11.	To calculate the allowance for return of assets (regulatory depreciation), using: A straight line depreciation method For existing assets, the rolled forward asset lives from the 2019 determination period as listed in Table 5.5 For new assets, the asset lives listed in Table 5.5	Accepts IPART's Draft Decision
12.	To set the allowance for return of assets at \$16.6 million over the 2022 determination period as shown in Table 5.6.	Accepts IPART's Draft Decision, subject to the expenditure updates outlined in this submission
13.	To set an allowance for return on assets of \$22.7 million over the 2022 determination period (shown in Table 5.7). This is calculated by using: the RAB values shown in Table 5.4 a real post-tax weighted average cost of capital of 2.9% a sampling date of 31 December 2021 for market observations as outlined in Appendix D.	Accepts IPART's Draft Decision
14.	To set a true-up for differences between the forecast and actual cost of debt over the 2019 determination period of -\$1.3 million.	Accepts IPART's Draft Decision
15.	To use a true-up for differences between the forecast and actual cost of debt over the 2022 determination period in the next Determination.	Accepts IPART's Draft Decision
16.	To set the working capital allowance for the 2022 determination period as shown in Table 5.8.	Accepts IPART's Draft Decision
17.	To set the tax allowance as shown in Table 5.9, using: – a tax rate of 30% – IPART's standard methodology.	Accepts IPART's Draft Decision
18.	To include \$0.6 million in the NRR to account for differences between the forecast and actual water sales over the 2019 determination period.	Accepts IPART's Draft Decision
19.	To accept Essential Water's proposed customer numbers and total water sales volumes over the 2022 determination period, as shown in Table 6.1 and in Table 6.2, respectively.	Accepts IPART's Draft Decision
20.	To accept Essential Water's proposed wastewater volumes for non-residential customers as shown in Table 6.3.	Accepts IPART's Draft Decision
21.	At the next determination of Essential Water's prices, to consider an adjustment to its notional revenue requirement to account for over-recovery or under-recovery of revenue due to material differences between forecast water sales and actual water sales over the 4 years from 1 July 2021 to 30 June 2025.	Accepts IPART's Draft Decision

	IPART Draft Decision	Essential Water's position
	A material difference is defined as $\pm 5\%$ of forecast revenue from water sales over the 4-year period. Water sales forecasts for 2019-20 are the same as in IPART's 2019 final report.	
22.	To accept Essential Water's proposal to maintain the current 2-part tariffs for water and wastewater prices.	Accepts IPART's Draft Decision
23.	To hold the current treated water usage price of \$1.88 per kL constant (i.e., without inflation) over the 2022 determination period. This means it would only increase by the rate of inflation.	Accepts IPART's Draft Decision, subject to expenditure updates set out in this submission
24.	To hold the current usage price for untreated water of \$1.65 per kL constant (i.e., without inflation) over the 2022 determination period. This means it would increase by the rate of inflation only.	Accepts IPART's Draft Decision, subject to expenditure updates set out in this submission
25.	To gradually transition the usage price for untreated water (EW Pipeline customers) to \$1.40 per kL by 2025-26, as per Table 7.3.	Accepts IPART's Draft Decision, subject to expenditure updates set out in this submission
26.	To gradually transition the usage price for chlorinated water to \$1.65 per kL by 2025-26, as per Table 7.4.	Accepts IPART's Draft Decision, subject to expenditure updates set out in this submission
27.	To hold the current water service prices constant over the 2022 determination period (i.e., without inflation), as shown in Table 7.6. This means water service prices would only increase by the rate of inflation.	Accepts IPART's Draft Decision, subject to expenditure updates set out in this submission
28.	To maintain our current pricing approach for new mining customers who commence operations during the 2022 determination period.	Accepts IPART's Draft Decision
29.	To hold the current wastewater usage price of \$1.34 per kL constant over the 2022 determination period (i.e., without inflation). This means it would increase by the rate of inflation only.	Accepts IPART's Draft Decision, subject to expenditure updates set out in this submission
30.	To hold the current wastewater service prices constant over the 2022 determination period (i.e., without inflation). This means they would increase by the rate of inflation only.	Accepts IPART's Draft Decision, subject to expenditure updates set out in this submission
31.	To increase the deemed residential discharge allowance for wastewater from 90 kL per year to 100 kL per year.	Accepts IPART's Draft Decision
32.	To maintain our current approach for setting the wastewater service price for the mines.	Accepts IPART's Draft Decision
33.	To hold the current fixed trade waste prices constant (i.e., without inflation) over the 2022 determination period, as set out in Table 9.1. This means they would only increase by the rate of inflation.	Accepts IPART's Draft Decision

	IPART Draft Decision	Essential Water's position
34.	To set volume-based prices for Category 2 customers that continue on the price transition path set in our 2019 review.	Accepts IPART's Draft Decision
35.	To set non-compliant volume-based prices for Category 1, Category 1A and Category 2 customers that continue on the price transition path set in our 2019 review.	Accepts IPART's Draft Decision
36.	To remove volume-based prices for compliant Category 1 and Category 1a customers, as these customers are low risk and have a low impact on Essential Water's wastewater system.	Accepts IPART's Draft Decision
37.	To set mass-based prices for Category 3 customers that either: – continue on the price transition path set in our 2019 review, or – where the DPE has revised its guideline prices for a specific substance, transition mass-based prices for that substance to DPE's 2021 guideline price.	Accepts IPART's Draft Decision
38.	To subtract \$395,000 per year from Essential Water's wastewater notional revenue requirement. This represents our forecast of the revenue Essential Water would recover from trade waste customers if it were charging trade waste prices that align with DPE's guideline prices.	Accepts IPART's Draft Decision
39.	To hold the current miscellaneous prices constant (i.e., without inflation) over the 2022 determination period. This means it would increase by the rate of inflation only.	Accepts IPART's Draft Decision
40.	To continue not setting recycled water prices.	Accepts IPART's Draft Decision
41.	To deduct 50% of the revenue received from recycled water sales from Essential Water's notional revenue requirement for regulated services.	Accepts IPART's Draft Decision
42.	To accept Essential Water's proposal to maintain the current price structures for unmetered properties and unconnected properties.	Accepts IPART's Draft Decision

Table 5: Essential Water response to IPART Draft Recommendations

	IPART Draft Recommendation	Essential Water's position
1.	Essential Water explore opportunities for sharing resources with Essential Energy and options to overcome any constraints.	Does not support IPART's Draft Recommendation, as discussed in Section 3.5
2.	<p>We recommend the NSW Government fund the difference (\$81.7 million) between the total revenue to be recovered from customers and the target revenue via a direct contribution to Essential Water. This funding contribution would reflect:</p> <p>the shortfall in revenue associated with transitioning the chlorinated water usage price to \$1.65 per kL by 2025-26 – this is \$16,000 over the 2022 determination period</p> <p>revenue associated with transitioning usage price for untreated water (EW Pipeline customers) to \$1.40 per kL by 2025-26 – this is \$106,000 over the 2022 determination period</p> <p>the shortfall in revenue associated with transitioning trade waste prices towards cost-reflective levels – this is \$600,000 over the 2022 determination period</p> <p>the shortfall in Pipeline costs such that all other prices stay constant in real terms over the determination period - this is \$81.0 million over the 2022 determination period.</p>	Accepts IPART's Draft Recommendation, subject to expenditure updates set out in this submission
3.	The NSW Government fund the cost of transitioning untreated water (EW Pipeline customers) and chlorinated water usage prices over time.	Accepts IPART's Draft Recommendation
4.	The NSW Government fund the cost of transitioning trade waste prices over time. That is, the difference between the revenue Essential Water would recover under DPE's guideline prices and the revenue under the transitional prices set in the 2022 Draft Determination.	Accepts IPART's Draft Recommendation