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20 October 2021

2021 Water NSW Murray River to Broken Hill Pipeline Review
Independent Pricing and Regulatory Tribunal

Via online submission

Essential Water submission to the Water NSW Murray River to Broken Hill Pipeline Review

Essential Water welcomes the opportunity to provide feedback to the Independent Pricing and Regulatory Tribunal (IPART) on its Issues Paper (“the paper”) for the Water NSW Murray River to Broken Hill Pipeline (“the pipeline”).

There are a number of questions asked in the paper, and the focus of this letter will be on those matters that are directly related to Essential Water.

Essential Water is the largest customer of the pipeline, and as such Water NSW has engaged with our business as they developed positions for their pricing submission. It also meant that bulk water forecasts of Essential Water’s customer use were provided to Water NSW, and aligned as much as possible with those used in our concurrent Price Review. Overall, Essential Water is supportive of the thorough approach that Water NSW has taken to the Review, with the only real concern being about the level of risk being passed through to Essential Water for energy costs, unless there is an equivalent risk mitigation included by IPART in Essential Water’s determination.

Any price reduction in the pipeline charges is very welcome, as this is the largest component of operating costs for Essential Water. This price decrease reflects the reduced financing costs of the pipeline following falls in interest rates over recent years. We note that Water NSW is proposing to pass through potential increases in energy costs. We will defer to IPART on the necessity for the risk of this particular cost to be passed on by Water NSW, but stress that any decision to pass the risk on, must be reflected in an equivalent mechanism for Essential Water to pass these additional costs on to its customers in the next regulatory period. IPART needs to ensure that Essential Water has the ability to recover efficient operating costs.

Essential Water confirms that it is comfortable to continue with the current charging arrangement of any shutdown, standby or restart of the pipeline, and for any charges to remain unregulated and negotiated on a commercial basis.

The volume of water from the pipeline that is currently being used by Essential Water reflects the decision to source almost all water requirements from the pipeline, which is more than IPART forecast in their 2019 review. It is anticipated that the pipeline will continue to remain the primary source of water for the future, with Essential Water reservoirs only being used as a backup supply. The primary reasons for this are reliability, water quality and cost.

Essential Water is supportive of Water NSW’s proposed determination term of five years, as this also aligns with the term proposed in our pricing submission. The current regulatory period of three years is too short a time to show any progress against a determination, particularly when preparation for the next review begins close to two years in advance. We note that IPART is reviewing its regulatory framework for water, with a view to setting a standard six year price review term (with a mid-period check). A longer period of time between reviews is welcome, as it reduces regulatory costs and ensures the business can focus on delivering anticipated outcomes for customers.

With a longer term, however, comes a higher risk that the external environment changes significantly from forecasts used to set prices/revenue. The ability to pass through higher or lower costs of genuinely unforeseen material external events, that may impact a business over the longer price review period, is very important and is in the long term interests of customers. It is a symmetrical mechanism and works for events that could result in price increases or price decreases. Similar to Water NSW, Essential Water suggests that any IPART approved cost pass through value should be included as part of a true-up in the next regulatory period to eliminate intra-period price changes. We refer to our 18 October 2021 submission to IPART on Encouraging Innovation for further discussion on the use of cost pass throughs for risk mitigation.

Essential Water is happy to discuss these issues further. Please contact our Network Regulation Manager, [REDACTED]

Yours sincerely

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Chantelle Bramley
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