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20 October 2021

Independent Pricing and Regulatory Tribunal

PO Box K35

Haymarket Post Shop

Sydney NSW 1240

Dear IPART Staff and Tribunal Members

**Subject: 2021 Essential Energy water and wastewater price review in Broken Hill**

Thank you for the opportunity to lodge a submission to help explain my objection to price increases.

I sincerely regret missing the opportunity to lodge an objection for the last pricing review. Increases have resulted in our untreated pipeline water increasing by more than 45% in the last five years.

There was no improvement in water quality received at our property, be we had to pay a lot more to treat the water at our property. This water can arrive muddy or clear – either way it is full of contaminants that are expensive to remove.

We receive untreated water from the Stephens Creek pipeline. We live on a rural property where water use is critical. The pipeline that delivers water has been in situ for more than half a century. We have invested significant capital to treat the water in order to use it. Water treatment incurs expensive ongoing costs. There was no justification for the recent price increases of 45% as there was no change in supply or service; there is certainly no justifiable reason for this outrageous proposed price rise of 49.5%. There is no logic for a rise and doing so removes most incentive to turn on a tap.

Furthermore, the Essential Water pricing proposal document highlights they haven't a clue about the real cost of corporate overheads (at Port Macquarie) and that they have made up numbers to suit their case. Please find attached my submission – Part A on issues in the document that need exposing, and Part B on community and my own pricing concerns.

Yours sincerely

Linda Nadge

Director



Submission by Linda Nadge, Broken Hill, dated 20 October 2021

## **Part A**

I run a small business and property and have not had time to do a detailed response to the Essential Water pricing proposal. But someone needs to speak up.

To be honest, I only stumbled across this review accidentally somewhere. Consultation about this price rise did not include me.

I want to highlight things that I came across in the pricing document that I know are not right, that are stupid or irrelevant.

For instance, on pages 27 and 28, Essential Water compares the Broken Hill bills to other locations in the east coast of NSW where it rains. Also, it should be remembered most residents in Broken Hill have smaller areas that they elect to water due to the high cost of water.

The comparisons with places with much higher rainfall are not sensible or fair. Water is already at peak price in Broken Hill and Essential Water would have received much more push back from the community if anyone was aware that this review of prices was underway.

However, in the document, when I make allowances for ignorance about this arid area, it's the babble and corporate speak over "CAM" and "corporate overheads" that must be challenged, for example. These are millions of dollars applied to opex and capex, which we all know now, have been plucked from the black void of space. Yet they amount to thousands of dollars in our water bills. This tragic outcome for this community has to stop.

Page 52, Essential Water says:

#### 6.4.8

##### Overheads

We have allocated corporate overheads to our capex. Essential Water's overhead costs are allocated from Essential Energy in accordance with our CAM, which is outlined in detail in Chapter 7.

Based on the direct application of this CAM, the corporate overheads amount that would be allocated to Essential Water capex is \$17.5 million. However, we recognise the importance of maintaining affordability for our customers, so have decided not to propose collecting the full amount of corporate overheads in the NRR. We propose to collect a total of \$9.9 million over the regulatory period, \$7.6 million lower than total expected costs. This is outlined in further detail in Table 17 in Chapter 7.2.6.

**I say:**

**Arbitrarily slashing \$7.6m from NRR appears to be contradicting later statements about the sense of applying AER methodology in calculations. Clearly the AER methodology is not appropriate. So where are the facts? Where is the solid basis to charge \$9.9m? This is a lot of money to claim for "overheads" for a small outback community that goes fully unexplained.**

**But this is the corporate overhead charged for capex only!**

**There is another charge of \$10m in corporate overheads in opex.**

**That amount as calculated by the AER methodology was also too high to go with so it was also arbitrarily trimmed.**

Also on Page 53, Essential Water says:

#### Key messages

- Our operating expenditure (opex) forecasts have been designed to be both prudent and efficient, while also supporting a safe and secure water supply to our customers.
- Essential Water has entered a new era of water supply to Broken Hill from the Murray River, establishing a steady state operating environment. Our operating and maintenance activities are fit for purpose, reflect our operating constraints and regulatory requirements, and seek to minimise costs in the long-term interests of customers.
- Over the 2019 determination period, we expect to incur operating expenditure (excluding bulk water pipeline costs) of \$45.9 million. These costs are \$7.5 million or 20% higher than IPART's allowances for the 2019 determination period.
- The main drivers of higher costs in the 2019 determination period are labour and, relatedly, corporate overheads and fleet costs. The 2019 determination period operating expenditure allowance was based on large reductions in expenditure which would not have allowed us to meet our service standards.
- We forecast efficient operating expenditure (excluding bulk water pipeline costs) of \$73.1 million over the 2022 determination period. These forecasts are in line with our actual costs over the 2019 determination period, updated for our transformation strategy and taking into account our operating environment.

#### I say:

**IPART may like to reflect upon the former water supply structure in Broken Hill pre-merger with Essential Water, and strip away the big myth of the corporate overhead costs to expose the real costs of operations here. The operating cost structure put up by Essential Water is alarming and all the wordsmithing in the pricing proposal is centred on language used in energy pricing, regulation and safety. I know because I used to write energy and water pricing proposal papers.**

#### Brief Historical Cost Centres

**Fifteen years ago the water operations were delivering safe, reliable supply to customers. There was a Broken Hill based head office where corporate costs covered**

administration, billing, training, human resources, finance, payroll, meter reading, environment, reporting, records management and so on.

Other main cost centres were:

Engineering, Workshops

Mica St WTP

Wills St Sewerage Plant

Pumping Stations (at Menindee and Stephens Creek)

These days, the water pumping includes new locations with the new pipeline.

Labour force (including corporate overheads), was less than 90 persons.

The operating expenditure, including corporate overheads, was about \$14m per annum.

The information available in this pricing proposal makes me wonder how it was possible that costs have gotten so far out of control. The way Essential Water discusses labour in other sections of the proposal makes me wonder if they have put surplus energy workers into water costings. It is a relatively small business and they have lost all cost perspective.

Page 54, Essential Water says:

- Corporate overheads are driven by our allocation from Essential Energy

I say:

Confirmation of gross overcharging of water customers in Broken Hill due to entanglement with energy. Water customers in Broken Hill are subsidising energy network costs throughout Essential Energy's large geographic patch of NSW.

Essential Water should provide a refund to every customer.

Page 55, Essential Water says:

Essential Water's corporate overheads reflect our allocation from Essential Energy

IPART's 2019 Determination assumed a series of reductions in corporate overhead costs. Essential Water's proposed overhead allocation rate of 18% was reduced to 17.5% for 2019-20, 17% for 2020-21 and 16.5% for 2021-22 of all direct operating and capital expenditure for both water and sewerage.

Essential Water's overheads are determined by the CAM of Essential Energy. Essential Water has limited control to deliver the reductions in its corporate overheads assumed by IPART. Our corporate overhead allocation is \$2.4 million higher than IPART's allowance.

**I say:**

**Corporate overheads should not be this high. Please reflect on the historical structure for water. The impact of energy costs must be removed.**

**It is also a stupid comment that Essential Water has limited control over its costs.**

**It is such a stupid comment that I cannot believe that the CEO who approves all energy and water costs actually signed off this document.**

Also on Page 55, Essential Water says:

Higher fleet costs reflecting staff numbers, upgrades, and safety improvements

Our vehicle fleet costs reflect a share of Essential Energy's fleet costs based on the number of hours fleet assets are used to provide Essential Water's services. Both Essential Energy's total fleet costs and the number of hours that assets are used to provide Essential Water services have increased over the 2019 determination period.

This reflects:

- Limitations on our capacity to control our labour costs, and the necessity of ensuring our staff have access to the fleet required to undertake their functions
- The increase in Essential Energy fleet costs associated with an increase in maintenance works undertaken in-house over the 2019 determination period

- 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
- The installation of In-Vehicle Monitoring Systems (IVMS) in all Essential Energy and Essential Water vehicles to ensure the safety of our team.

The increase in fleet costs associated with changes to in-house maintenance and fleet upgrades will drive cost savings in the future, predominantly via a reduction to our corporate overheads.

The In-Vehicle Monitoring System is necessary to ensure the safety of our team (see Box 7.1). It reflects the cost of doing business safely in remote and regional locations.

Our fleet costs over the 2019 determination are \$2.0 million higher than IPART's allowance.

**I say:**

The fleet for water and sewerage services in Broken Hill are not located in "remote" or in "phone blackspot" areas. This is an excuse for excessive charging.

The IVMS may be highly appropriate for remote workers in the bush, however, the workforce in the water business are in a built up area and don't require this type of facility. Broken Hill residents simply should not be subsidising any part of the energy operations that cover most of the state of NSW.

This approach is simply wrong, unfair, unjustifiable and penny-pinching off pensioners, disabled persons and other economically vulnerable persons.

Too much money is going to corporate overheads, fleet. Different fleet is needed for a water business vs energy fleet. Why are fleet hours from energy vehicles being used for water – "fleet costs reflect a share of Essential Energy's fleet costs based on the number of hours fleet assets are used to provide Essential Water's services". Are these trips to the Post Office or is an EWP being used to plug a deep hole? This type of activity based accounting is not rocket science.

It would be good for IPART to insist upon provision of details of this enormous fleet and provide facts to customers if it impacts pricing so much. How hard is it to walk about the caryard and count. I suspect that the electricity staff (remotely based in maybe Port

Macquarie) put this information together (cut and paste) because the mix of “heavy and light commercial vehicles” used in “network programs” at \$1.9m is clearly company energy speak being massaged into justification for water. “We have forecast a steady investment in our fleet, to ensure customer prices reflect the optimum balance between new vehicle costs and maintenance and repair costs. This is particularly important given the size and nature of our service area.” (page 52, clearly the \$1.9m investment here is energy?)

The vintage car club here in Broken Hill can handle the size and nature of the Broken Hill water supply area. Can someone please count all these vehicles and report to the customers why more capital is required year on year, in addition to hefty fleet opex, year on year, and then yet more for corporate overheads for fleet opex and capex?

Let’s just flip back quickly to non-system assets (non-energy system assets, that is, on page 51:

Information Technology (IT) (\$3.5 million): During the 2022 determination period, Essential Water will undertake a steady level of IT investment to ensure the provision of an affordable network service to our customers. Our investment in technology is aimed at improving efficiency and lowering operating and capital costs over time. We are looking to investigate the introduction of smart meter technology that will allow for us to monitor pipelines to improve the efficiency of our operations. Enhancements to pressure monitoring are intended to aid in burst detections, as are potential integrations between SCADA and Mainpac for workflows. We will continue to investigate how we can utilise advancements in technologies to further drive productivity.

I say:

On face value, over-engineering/too expensive. Workmen are inspecting these assets all the time. What is a person in Port Macquarie going to do with the data, 1200km away? This is precisely the type of item that needs a really good evidence basis prior to spend. Water is a very intense infrastructure business but capital spend is very high considering what it means for customers on bills. Given the Essential Energy language used throughout the capital assets area of this proposal, I’d say some of it is all about new toys for the office. Customers here will not benefit from this spend.

What do customers really want?



One example might include bills sent via email, another may be online access to historical and current account information. If that is too hard within \$3.5m, how about printed flyers in bills to provide detail of what is intended in the spend out here that makes the bills rise so much.

I object to further high-cost engineering spend until thorough community consultation has occurred. It is the job of the corporate head office leaders to push back on this type of spend that delivers no or questionable value to customers.

Right now, I don't care about a smart meter on the pipeline. The water interruptions via pipeline are so rare I can count them on one finger and I have trust in the local workforce who identify and fix any problems.

Has the local workforce been consulted? IPART really needs to get to the bottom of the plans to spend on new engineering toys when 15+ years after the corporate overheads began to be extracted from this region we still cannot receive modern billing functions, my printed bills go to Tibooburra and I cannot see account history online.

Page 61, Essential Water says:

#### 7.2.6 Corporate overheads

Corporate overheads relate to centralised functions undertaken by Essential Energy on behalf of Essential Water. The main components of these costs relate to governance, information technology, human resources, billing, finance and safety.

In its 2019 Final Report, IPART recommended that Essential Energy should continue to pursue efficiencies in its corporate operating costs and identify a more accurate way of attributing corporate overheads to Essential Water at its next pricing review. This recommendation was based on the findings of IPART's expenditure review consultant, Aither. Specifically, Aither recommended that Essential Water should undertake a bottom-up assessment of its corporate related functions to better establish its forecast operating cost needs.

This recommendation has been addressed through the Essential Energy CAM and corporate transformation, discussed in turn below. We recognise that minimising costs is crucial for maintaining affordability for our customers. Therefore, we have not included the full amount of corporate overheads determined by the CAM in our NRR.

Our cost allocation methodology is approved by the AER

We have developed our forecasts of efficient corporate operating costs using the Essential Energy CAM. The CAM is based on the principles shown in Box 7.4 and has been developed according to the requirements contained in the National Electricity Rules and approved by the AER. It is consistent with IPART's principles for cost allocation.

**I say:**

**Essential Water seems clueless on how to manage the business or minimise costs if a consulting firm was brought in and had to recommend Essential Water “undertake a bottom-up assessment of its corporate related functions to better establish its forecast operating cost needs”.**

**This is usually work done by the finance department. We can see that they are very well paid, but paid to do what?**

**It's a little confusing in section 7.2.6 but I think Essential Water is trying to say corporate overheads were spent on an external consultant to explain how to understand the corporate overhead costs. Is that right?**

On page 64, Essential Water says:

We do not propose to recover the full corporate overhead costs allocated by the cost allocation methodology

Essential Water has developed its corporate expenditure forecasts using the AER approved CAM. The proportion of Essential Energy's corporate costs allocated to Essential Water is based on the business's share of Essential Energy's total direct expenditure. The significant expenditure program for Essential Water for the 2022 determination period means it attracts a larger share of corporate costs. This has served to increase the corporate costs proposed by Essential Water for the 2022 determination period.

Essential Energy's corporate costs are increasing, but this is to deliver a transformation program that will achieve valuable efficiencies over time. Our corporate transformation program will deliver efficiencies, but this will take time. The Workforce Redundancy Restriction, and our commitment not to move away from this restriction too quickly in

the current environment, is a key consideration in our capacity to deliver the transformation strategy and valuable efficiencies in the future.

We recognise that the corporate overheads allocated to Essential Water can make up a material share of total operating expenditure. Therefore, we have not proposed to recover the full amount of corporate overheads that would be allocated to Essential Water by the CAM. We have developed our proposed corporate overheads by:

- Starting with the value from direct application of the CAM
- Removing any costs associated with transformation departments that don't directly apply to water
- Applying a 50% reduction factor to any individual items allocated to Essential Water valued at over \$200,000

The outcome is proposed corporate overheads for operating expenditure of \$10.7 million, which is \$4.6 million lower than the direct allocation from the CAM.

Table 17: Proposed corporate overheads (\$000, \$2021-22)

	2022-23	2023-24	2024-25	2025-26	2026-27	Total
<b>Operating expenditure</b>						
Direct application of the CAM	3,005	2,818	3,172	3,212	3,068	15,274
Proposed corporate overheads	2,423	2,234	2,142	2,021	1,860	10,680
<b>Proposed variation</b>	<b>-582</b>	<b>-584</b>	<b>-1,030</b>	<b>-1,191</b>	<b>-1,208</b>	<b>-4,594</b>
<b>Capital expenditure</b>						
Direct application of the CAM	5,518	5,855	3,805	1,211	1,135	17,524
Proposed corporate overheads	2,978	3,164	2,222	809	747	9,920
<b>Proposed variation</b>	<b>-2,540</b>	<b>-2,691</b>	<b>-1,583</b>	<b>-402</b>	<b>-388</b>	<b>-7,604</b>

**I say:**

**There it is – a confession that numbers were plucked from a void. The numbers were so bad using the AER methodology that they had to trim the figures. Without the trimming, Broken Hill customers would have been asked to pay \$33 million for Port Macquarie corporate overheads over five years. Instead, we are treated to a discount (plucked from the sky) and are now being asked to pay \$20 million over five years but still no idea what for or if correct.**

- **Essential Water admit that the AER methodology used to calculate corporate overheads is flawed**
- **This confirms that there is no understanding of real costs incurred by corporate overheads within the Essential Water/Essential Energy head office – they've had to apply an arbitrary calculation**
- **Essential Energy's costs are high as well and I suspect that this means we can all expect to receive increasing bills for electricity until the end of time!**
- **There is a blurry lack of understanding about costs that belong to Essential Water and Essential Energy; this blurriness means all customers in Broken Hill have been overpaying corporate overheads as we now know that they have used a flawed methodology to calculate these costs for at least the last three years and**
- **Essential Water is seeking to have IPART approve their guess work about corporate overheads for the next five years.**

**In return, as a customer, what do I see as the outlook for me?**

**Essential Water expresses pity about that pandemic but will still slug the people on the pipeline another increase of 50% for untreated water over the next five years.**

**Really?**

**In my opinion, IPART should seriously consider the whole of the community of Broken Hill receiving a refund for overcharging of corporate overheads for the last three years.**

**IPART should not approve this pricing as it is based on flawed information and even Essential Water agrees and admits it is flawed.**

**IPART needs to reflect upon the best interests of the community of Broken Hill.**

**Should we be accepting these price rises that are proposed by those clueless about real water costs and focused mainly on energy?**

**Perhaps it is time for the NSW Government to re-evaluate the inclusion of water with Essential Water. Is it still in the best interests of the Broken Hill community. In my opinion a demerger is due now, before every blade of grass is killed off.**

**On pages 30 and 31, Essential Water says:**

**We propose a five-year determination period...**

#### **4.2.3 A five-year period would reduce regulatory burden and enhance incentives for Essential Water to pursue efficiency gains**

**A five-year determination period would significantly reduce the cost to Essential Water of participating in price reviews; and allow it to draw on operational experiences over a longer period of time to better inform the next price review. Given the now relatively static state of Essential Water's operating environment and the size of Essential Water, a five-year determination period would represent a more proportionate approach to regulation.**

**For context, the population we service is about 5% of the size of the population supplied by the Central Coast Council, 3% of the size of the population supplied by Hunter Water and about 0.3% of the size of the population supplied by Sydney Water. Given our size, it is important that IPART adopts a proportionate approach to regulation and seeks to avoid any unnecessary regulatory costs – such as those that would be incurred with a shorter determination period.**

**Furthermore, under a five-year determination period, Essential Water would hold onto any efficiency gains it realises for a longer period of time, thus providing enhanced incentives for it to pursue such gains before they are revealed and 'handed back' to customers at the next price determination. This would benefit customers in the long run.**

I say:

Goodness me. Essential Water wants five years to hang on to inefficient efficiencies – they’ve just admitted they do not understand their costs or the basis for charging corporate overheads to the micro-small water business in Broken Hill.

Please IPART, do not approve this. If I was able to suggest a way forward, I would tell Essential Water to go and understand their corporate office costs as they pertain to water.

IPART, can you please at the very least leave all prices for customers for 12 months until Essential Energy produces cost evidence and presents a business case to this community for any excessive capital spend.

On second thoughts, perhaps assign an independent assessor to review or audit the water costs as this may be the only way the real corporate overheads are revealed.

This is not hard. Essential Water are making it look difficult, but remember to review the historical cost basis. It is inherently a small water business and Essential Water is making a real meal of it.

Failing to delve further into this nightmare of “CAM” means this community will pay far too much for water OR, a more likely scenario, failing to curb these costs will see amenity and liveability in this area continue to decline.

Every blade of grass in the district will have to justify why it should live.

Can we all agree on the facts first before moving forward. If this pricing proposal is approved IPART will embed unfair high costs of the head office in our bills, probably forever, unless there is a demerger.

On page 31 Essential Water says:

#### **4.2.4 Any uncertainty over the determination period to be managed by risk management mechanisms**

It is common regulatory practice to incorporate risk management mechanisms to amend the regulatory settings if there are unanticipated, material changes in revenues and costs during the determination period that are outside the control of the regulated business. Common risk management mechanisms include cost pass-through and demand volatility adjustment mechanisms. Our proposed risk management mechanisms are outlined in Section 4.5.

And on page 33, Essential Water says this:

#### **4.5.1**

##### **Cost pass-through mechanisms need to be introduced**

##### **We propose a cost pass-through for specified pass-through events**

We consider that introducing an effective cost pass-through framework will improve our ability to appropriately manage cost risk in the long-term interest of customers. In our view, it is important for an infrastructure business to have the reasonable opportunity to recover the efficient costs it incurs as a result of unexpected events, which are beyond its control, in future years.

We propose a cost pass-through mechanism be adopted for the 2022 determination period. Our proposal draws on our experience of the effective cost pass-through arrangements for Essential Energy under the National Electricity Rules. We propose a symmetric framework that applies for both positive and negative cost events.

The cost pass-through mechanism should be limited to unexpected events that are beyond a business's control, to not undermine incentives for the business to effectively manage cost risks. These unexpected events could relate to:

- Changes to WaterNSW's regulated bulk water prices – due to any cost pass throughs in its price determination
- A regulatory or service standard change event

- A tax change event
- Other nominated events, including terrorism, natural disaster, and insurance coverage.

The cost pass-through mechanism should provide for a business to recover the efficient costs associated with these unexpected events. If businesses are unable to recover these efficient costs, it could compromise their ability to optimally invest in and operate their networks – which would not be in the long-term interest of customers.

A cost pass-through event in these circumstances would provide an appropriate balance in the allocation of risks between Essential Water (to recover its efficient costs of providing its regulated services) and its customers (to ensure that prices are no more than necessary to provide an appropriate level of service). Given these cost pass-through mechanisms would only apply to events beyond the water business's control, they would also ensure the business still has incentives to efficiently manage its cost risks.

Such a cost pass-through mechanism could be designed so that if the pre-defined trigger event occurs, IPART then conducts a process to assess the efficient costs of this event to be passed through to customers via prices. This would mean that only events beyond Essential Water's control are eligible for the mechanism (eliminating any concerns IPART may have regarding perverse incentives for risk management), and only efficient costs of that event are passed through to prices – thus, ensuring prices reflect efficient costs.

We consider that IPART can conduct in-period assessments of the efficient costs of pre-defined trigger events, and that efficient costs of such pass-through events do not have to be specified ex ante in a price determination. There are several examples where an IPART price determination (e.g. Sydney Water) has specified a price adjustment to occur in-period following an in-period IPART assessment of efficient costs or prices (e.g. to adjust Sydney Water's prices for a subsequent determination of the Sydney Desalination Plant's prices).

Given the sensitivity we have to price rises for our customers, we would assess on a case-by-case basis whether to apply to activate a cost pass-through true-up for inclusion at the next price determination, after considering potential impacts on our financial position and on customers. Regardless, there is still a strong case to include the above-mentioned cost pass through framework in our price determination.



I say:

**They don't understand climatic conditions in Broken Hill and are out of touch with water affordability.**

**They don't know enough about their own office costs to understand the cost of risk "events".**

**Since they lack transparency and efficacy here, how can Essential Water's remotely located head office be trusted with a tool that wields "perverse incentives"? By stating they know about that tool means they have definitely thought about using it.**

**It certainly is not efficient to impose a risk pricing mechanism that is suitable for a city of 5 million people on a community of 18,000 people.**

**Essential Water shied away from the AER methodology for erroneous calculations of corporate overheads in one section but here they are now supporting another energy market methodology because it suits them.**

**They claim that a mechanism developed for the competitive national energy market (cost pass through) should be brought into their pricing considerations because it broadens ability to provide even more reasons for more price rises, but very few opportunities for price falls. I strongly believe that this is entirely inappropriate for a monopoly water business and it would be suicide for plants and animals.**

**"Cost risk" (like natural disasters and insurance) is code for "price rise". It might sound good to have a "symmetric framework", but we've never seen prices drop on our electricity bills. Unlike water supply, customers can better manage energy costs with alternatives and renewables.**

**Water is critical for life.**

**I strongly object to setting up Essential Water to become a water price dictator. This environment is hot, dry. The head office of Essential Water lives in a wet, humid environment. They have no idea about the critical nature of water here and why it must remain affordable. I have a vision of a small group of people in the Essential Water head office in Port Macquarie reviewing letters from customers, delivered by snail mail, making decisions about what grass can live, what animals can drink. You can see that by**

now the pricing proposal paper has become far too humorous to believe. However, this proposal and the intentions within it, even though flaky and rubbery, will harm us in Broken Hill. The accountability and disconnectedness of the head office has made them very bold.

But, the long term vision for pricing was eloquently expressed on page 33:

**“Such a cost pass-through mechanism could be designed so that if the pre-defined trigger event occurs, IPART then conducts a process to assess the efficient costs of this event to be passed through to customers via prices”.**

Oh, now it is clear. IPART can get the blame, and Essential Water can take the money.

Is drought a predefined trigger event? What is? Too much rain during the month – is that a trigger event?

I am stunned. It reads like Essential Water wants to use future droughts to justify future price increases. That is the dominant “natural disaster” out this way.

Future droughts will be longer and occur more frequently. Droughts make insurance costs rise. Droughts and insurance will affect bulk water pricing and availability. It seems that there is nothing but doom and gloom ahead in terms of water pricing for us.

The stupidest thing about arguing for a cost pass through mechanism is that Essential Water is arguing with its own shareholder, the NSW Government.

The second stupidest thing about arguing for this cost pass through mechanism, no equally the stupidest thing, is that Essential Water is admitting it is unable to manage normal business activities. The people who are paid high salaries to manage the water business are admitting they are skills deficient in business risk management.

## Thoughts

Since Essential Water is having such difficulty managing this little business, perhaps it should hand it back to the community so that we can manage it. I raise this as a serious issue for consideration. It's been highlighted Essential Water does not understand their costs and their whole proposal should be thrown out. It lacks cost justification, cost base transparency and contains rubbery numbers arbitrarily trimmed to look better.

IPART should at the very least hold all prices steady for the next 12 months while Essential Water is made to do their accounting work. Better still, get an independent assessor to dig deep into the issues and reveal just exactly how much Broken Hill water customers are subsidising the Essential Energy electricity business.

When honest and clear numbers are available I for one would like to spend time analysing that work again as their proposal puts my business's future day time activities at high risk.

During the day, customers will see dust, bare dirt, have less shade and probably not bother to attend day time programmes for these reasons. All because rubbery numbers will make it unaffordable to water grass, shrubs, trees, natural wildlife and suppress dust. Also, my ability to afford water treatment will become questionable when my revenue base is eroded during the day. My property will become barren and dry and who'd want to be here. I have no ability to increase my prices by 50% over the coming years.

In addition, IPART and the NSW Government should seriously consider the long term game that Essential Water is playing. It is highly unfair to allow prices to escalate within a monopoly industry like the water and sewerage business in Broken Hill.

Essential Water has been allowed for too many years the opportunity to squeeze customers by citing costs that we now know were composed of rubbery figures and competitive energy market techniques that only shove customer prices upwards.

I again express my great sadness at not seeing the last water pricing proposal before it slugged me a 45% price increase since 2016, and now I face another increase of 49.5% over the next five years.

## Part B

In my personal and professional opinion:

- The pricing proposal does not align with customer expectations – no one is expecting to have to pay yet more for water without transparent justification.
- The proposal has been produced by persons disconnected from this community without understanding a water business or needs of customers.
- This pricing proposal desperately references overarching costs and work practices of Essential Energy to justify charging enormous corporate overheads.
  - The corporate overheads for the Broken Hill water business are unfairly linked to an energy utility that services a very large land area of NSW.
  - These costs are so high they must be challenged. They must be explained or removed from the pricing basis due to being energy related costs, rubbery, lacking transparency, untrusted.
- On this occasion, IPART must deny the request for a five-year determination period for Essential Water as this pricing proposal will hurt all of this community. Essential Water must redo the numbers with the right corporate costs and rethink some of the capital as some of it looks like toys for the people back in head office.
  - There are reasonable grounds to believe that overcharging has been an ongoing feature of the last three years, at least. **All customers are entitled to a refund for that overcharging.**
  - Essential Water must consult more with customers. No effort has been made to talk to me yet Essential Water wants to kill my garden and deny native animals water because they decided the water price needs to be more expensive.
  - Essential Water must provide more confidence in projections eg by linking the capex to business justifications for the spend. This should be provided so that customers can understand reasons for high prices. There is no detail about why the billing, payment methods and customer communications functions remain stuck in the 2000s; I cannot get an invoice on email and cannot log into an online account; their processes are all very old and out of date. They haven't improved any of the fundamentals with customers interactions in 15 years yet want to get smart metering for a new pipeline. Who knows if it is a new or an old pipeline, as we were not told in the document.
  - Instead, the pricing proposal is heavy on energy speak and corporate wordsmithing around rubbery numbers, and low on facts that might explain why water prices must rise.

- IPART must deny the request for a cost pass through to be applied to water as it opens the gate for Essential Water to charge higher prices for anything they haven't thought about because they lack skills to do their jobs as risk managers.

**1. Setting prices that customers can afford is a key concern for this review. What are the factors should we consider to ensure the prices we set are affordable for customers?**

In my community, which I understand well, water affordability is important. Many folks from the east coast would not appreciate:

- Mental health of older, retired, unemployed and disabled people – for many people their main outdoor activity is gardening in pots or small plots. In the recent decade of high water prices far too many residents have replaced their gardens with pavers or allowed the dust and weeds to take over.
- Dust control/lead dust management – weather changes blow in from WA, SA and NT bringing dust. Dust is carried in from dry farmlands hundreds and thousands of kilometres away during windy seasonal change, storms and weather fronts. Cleaning dust requires water use. The more expensive it is the harder it is for people to do the right thing by their families and properties.
- Environmental – trees, grass cover, shrubs and parks and gardens make a place liveable and more appealing to visitors. Broken Hill is a small area and it serves many visitors. We need to encourage more plantings and more environmental maintenance and care, not frighten people away from these important activities with higher prices.
- Very low annual rainfall and longer periods of drought – it is the exception to receive the average annual rainfall and Broken Hill should be considered a semi-arid/arid environment. Drought is always on the horizon. Water use is always going to be high. Attempts to predict when and how water will be used is not a precise science. Some parts of the town will receive rain, others will receive nothing. It is always best to assume that water use will always be high because rainfall is always so low.
- Liveability – we must use more water because it is hot and dry (for plants, animals, children, people, evaporative cooling, cleaning, swimming, sport). If prices keep creeping up the people cannot afford to live here because there is no incentive to create cool places or invest in anything that attracts a high ongoing operational cost due to water. **High water prices have been eating away at amenity for too long and liveability in Broken Hill is on the decline as a direct result.**
- Small business survival – the pandemic has decimated business momentum. Revenue that has been lost in tourism and hospitality cannot be recovered. Water and energy costs are the two biggest ongoing expenses after labour and insurance, in most

hospitality businesses. The ongoing creep upwards has outgrown years of low/no inflation. It has become a sad reality that every year prices must increase – there is no symmetry, just up and up.

- Economic growth – water is now on the side of being unaffordable for too many. It will be very hard to sustain or grow the area with water costs that put us at a huge disadvantage. Water supply to mining companies likewise needs to remain affordable. It would make sense if customers were properly contacted about their thoughts on price rises. Are they leaving town because of these sorts of issues? Is the stark reality of ever-increasing water prices contributing? Essential Water (head office decision makers) is not communicating with its customers to know. **I suspect Broken Hill has become a largely unattractive place to live because most existing residents are so worried about water use and paying the price that they've given up trying to keep the grass alive in the backyard (among other reasons, like lack of local leadership).**
- Water efficiency has peaked – most people have tanks, recycle water, don't waste water. We've installed at least five new rainwater tanks at our place in the last three years and we recycle all wastewater via wastewater treatment; there is not much more we can do. Most people we know are at the same level of frustration. We have no other supplier to go to. We are supplied by a monopoly that calls the price and we put up or shut down. **I think the shutting down process has been underway for some years now and the people are voting with their suitcases, dusty dry backyards and lack of enthusiasm for general living, eg improving home gardens. Essential Water (Port Macquarie) does not know about this underbelly of frustration because they don't consult or communicate with customers and like most utilities, run away from any prospect of customer interactions.**

Very soon, there will be even fewer gardens, fewer people with enthusiasm for maintaining amenity in their residential areas. The plan to further increase treated water prices in the town is simply too much to expect the people to pay, and more so on the back of a pandemic. There does come a time when someone has to say it's been enough.

It is worth emphasising:

1. IPART should force Essential Water to communicate with customers about price increases by putting flyers in with the bills (since they can't send emails).
2. I am certain there is little knowledge of this pricing proposal among people in Broken Hill.

The proposed increase in untreated water specifically compelled me to lodge this submission.

It is water that is unfit for human drinking and often unsuitable to provide to animals.

A price increase of this magnitude makes no sense. It cannot be justified – nothing in the water supply has otherwise changed – just the price – upwards.

If all pipeline customers in the area became aware of this plan it would place them in a very high state of stress. It may even cause some marginal business activities to cease. But since they don't know about this price increase proposal, and they were not consulted specifically about this hefty increase, we may never know.

**The price increases as proposed are also alarming because Essential Water believes their “customers water consumption is no longer affected by drought” (p 21).**

These are the words of someone who does not understand this environment. High water use in the area is a fact of life due to dust, heat, hygiene and other factors.

Why was there not a bigger effort to talk to customers, particularly the Stephens Creek pipeline customers who are being unfairly targeted. There is only a handful of these customers and they should have made the effort to contact us now, and three years ago.

**IPART needs to know that there was no effort made to discuss any of these hefty price increases with the community.**

Table 7 on page 24 confirms virtually no one was communicated with for anything to do with the entire pricing proposal.

**The inclusion of the Broken Hill Chamber of Commerce in community consultation efforts demonstrates just how little effort was put into consultation, given the chamber has not existed for many years.**

Who are the 10 people that Essential Water were happy to say they consulted apart from council, mentioned twice?

**3. What do you think about the proposed price increases for chlorinated and untreated pipeline water customers?**

- I strongly object to a proposed 49.5% increase in the price of untreated water; Essential Water proposes I pay \$1.63 per kL by 2026-27 for untreated water

I do regret that the last pricing proposal slipped by me without notice. I was busy building a new business in a new location. The property is supplied by untreated water.

Because I missed the opportunity to object to the last price increase I must do as much objecting now as possible. It resulted in our water bills for raw water increasing by more than 45% in the last 3 years.

Raw water is delivered to us via the pipeline that takes water from Stephens Creek to Broken Hill. The pipeline passes our place just across the highway.

There was very little justification for that price increase of 45% and there is certainly no justifiable reason for this outrageous proposed new price slug of 49.5% over the coming years.

I wish to stipulate that I have no problem with the local water operations and the work that is done to maintain supply. They do a great job. They understand the business and their customers. I know many of these people as I worked with them a long time ago. I fully understand the operations and local cost structures as I previously worked in the local water and energy utility for nine years until 2005. Sadly, nearly two decades after the merger with Country Energy, now Essential Energy, the corporate overheads from Port Macquarie that are lumped into Broken Hill water bills are now out of control.

### **Untreated Pipeline**

As already mentioned, my family has a property near Broken Hill and is an Essential Water customer classified as “untreated – pipeline”.

Our property takes raw (untreated) water from the pipeline that links Broken Hill to Stephens Creek. Most of the pipeline customers in this section have water use needs including livestock, gardens and domestic requirements. Most pipeline customers are small places, some operating small businesses in livestock, tourism. Our properties are all rather isolated, ie not in the town’s built up region, and exposed to the hot, dusty and drying conditions of summer and the dry, cold winter spells.

The average annual rainfall in the town of Broken Hill is 280 mm or 11 inches per year. Having said that, rainfall is patchy. It may bucket down in town while 10km away from the PO we often receive nothing. The soil types for many of us in this part of the country are sandy with rock or clay at depths of a metre or more. Around calendar 2018 we received



something like 40 mm of rain at our place – not enough to keep grass and shrubs alive. We lost many vulnerable young trees. We attempted to keep local wildlife alive with tubs of water at our fence line. At the next decent rainfall we had the grass pick up again and we've been able to keep most plants alive since then – but we are paying heavily for it.

Properties need to retain gardens and grass for amenity, dust suppression and local birds and animals. It is important that watering occurs multiple times per day in summer using higher volumes of water and in winter, watering less is viable but it cannot be avoided entirely as some persons may argue.

The grass and many smaller plants at my place would die without watering twice daily during multiple weeks of 40° and higher.

Most of the pipeline properties have animals and livestock and we cannot avoid water use for these purposes. Many of us try to maintain natural birdlife and native animals in the surrounding environment. Trees, grasses and shrubs must be maintained.

During 2019 and 2020, dust storms were experienced in winter. This is not usual. Just this week, mid October 2021, we experienced another dust storm, though smaller than some of those we expect in warmer months. The climate tendency is dry not wet; dusty not dust-free. The dust comes in from hundreds or thousands of kilometres away in SA and WA, contrary to other opinions.

The properties serviced by the Stephens Creek pipeline have no control over the condition or quality of water received.

For example, the visible condition of water received at our property at any time can be described as muddy, smelly, discoloured or looking clear but heavily laden with fine particulate matter.

Fine particles are an expensive condition to manage due to the multiple and expensive layers of filtration necessary, as finer and finer (<1 micron) filters are used, and they also need changing out more often.

The water quality from the Stephens Creek pipeline is not safe to drink. It requires a great deal of effort to treat it to make it potable. A rigorous treatment regime is necessary to achieve water that meets Australian Drinking Water Guidelines.

In order to use this water we invested heavily in several water treatment facilities. We input many hours of labour – daily, weekly, monthly and quarterly – to conduct inspections and routine maintenance. Our water treatment plant facilities were installed in 2019. It is likely we will need to invest additional capital in more treatment facilities to continue to stay on top of water quality issues at our property. The high cost of treatment of water at our property is directly attributable to the condition of water received from the pipeline.

**This is not a complaint, simply a fact.**

It is a myth to say anything else.

We have water usage demands at our property which must meet ADWG. In order to treat water on site we have no escaping ongoing, high operational costs for consumables eg chemicals and filters.

However, 97% of the water we use is not required to be treated.

During 2020-21, only 3% of our water use was in areas where the water quality had to meet ADWG. We had multiple stops due to lockdowns so even though water volumes for us overall may have been down, the costs for us were still high due to treatment costs and yard needs.

In this same period, rainfall at our place was approximately 185 mm. Several months received no rainfall and other months received most of the rain. Rainfall does not assist greatly with reducing water use.

It is a myth to suggest that rainfall reduces water consumption, especially on a property like ours.

We meter flows through our water treatment plants and we track all expenses for tax reporting purposes in accounting software.

We can advise that water treatment costs at our property during 2020-21 averaged \$49.80/kL for 3% of the water supplied.

Our water treatment costs are the same irrespective of where the water is sourced. Our experience is that water treatment costs are at least \$5,000 per year. These costs are in addition to the water bills from Essential Water.

It is therefore difficult for us to understand why the price of untreated water supplied must be increased by 49.5% over five years as suggested (Table 51, P. 92 or 110).

At the rate of the price increase proposed, we come to nearly 80% of the price of treated water supplied in Broken Hill. Yet no improvements in water supplied. This is not right. By this logic treated water in Broken Hill would be increased to \$4/kL. Is this the end game?

I have to wonder if the Essential Water staff in Port Macquarie have any idea about the condition of untreated water. This price increase has already gone too far at the current rate of \$1.09/kL and any further increases have no sound basis.

**To be clear about what I have just explained,**

**Essential Water have proposed that they supply untreated, sometimes muddy, sometimes deceptively clear but unsafe, water to me and they want to charge me almost the same amount as if I received treated water from the Mica Street plant.**

The cost of treating pipeline water is expensive and not related to the water source – whether from the Darling River or the Murray River.

The proposed price increase for pipeline customers is unfair and it is not justified for the water condition that is supplied. This proposal should be fully rejected. No increase is warranted after the hike in prices from the last three years.

**Again, Essential Water is proposing that within five years, the Stephens Creek pipeline customers who receive untreated water will pay almost as much as customers in Broken Hill who receive fully treated water.**

**There is no explanation, justification or substantiation. Just a number in a table in a document, posted online, hoping again that the huge increase slips into regulation pricing. It is a number, like the numbers made up by CAM, plucked from a void of nothingness.**

It is an irrational notion and no price increase has been justified.

I am happy to provide more information for IPART's consideration.

- **As a concerned member of the Broken Hill community, I urge IPART to reject the Essential Water pricing proposal in its entirety and fix prices in place until a professional independent assessor can verify the actual amount of those incredible corporate overheads that should be included.**
- **I strongly request IPART reject the 49.5% increase in untreated pipeline water and ensure no increases be applied for the next five years. The pricing is already too close to becoming unaffordable. There is no clear rational reason why the pricing should be increased – it's untreated.**

I hope that IPART and the NSW Government can accept that the population base in Broken Hill is too small to achieve full cost recovery from customers for the very large infrastructure investments. All agencies with any interest in the area should be encouraging business development, liveability for residents and continued investment in mining.

The best thing done in the area for water security was the construction of the pipeline from the Murray River to Broken Hill. However, everyone knows this investment could never be afforded by the community. Likewise, the new Mica St water treatment plant in Broken Hill was a tremendous asset that the community needed but cost recovery would always be a lengthy process as per asset life demands.

I hope that IPART and the NSW Government accept that an operating subsidy for the Broken Hill water supply, is a reality that will not go unless the economic base thrives.

The NSW Government needs to again consider that the most efficient water supply business model for a remote community is one that is operated by locals in the local community. It now looks like it was a big mistake to wrap up Broken Hill's water in a top-heavy, remote organisation. It is never too late to reverse this decision and the community would welcome it.