

## Introduction

WaterNSW's prices and revenue for monopoly services are regulated by the Independent Regulatory and Pricing Tribunal (IPART). IPART is an independent NSW Government agency that reviews prices for a range of services in NSW which include water, gas and public transport. Prices are generally reviewed every four years.

IPART will shortly commence its process for the determination of WaterNSW's prices for the Wentworth to Broken Hill Pipeline (the pipeline) to apply from 1 July 2022. As part of this process, IPART requests that WaterNSW provides it with a pricing proposal that publicly explains, justifies and documents its proposed prices for monopoly pipeline services.

This document provides a high level summary of WaterNSW's pricing proposal for the pipeline. For more detail, please refer to WaterNSW's pricing proposal.

## Who is WaterNSW?

WaterNSW is a State-owned Corporation formed on 1 January 2015 under the *Water NSW Act 2014* (NSW). We are Australia's biggest water supplier.

We own and operate 42 dams across NSW as well as hundreds of weirs and regulators and a small number of pipelines. We supply and deliver water through our infrastructure and the State's river system to our customers, including Sydney Water, farmers, irrigators, regional towns, industry and environmental water holders.

Through infrastructure planning, delivery and operation, we meet customer-defined levels of service consistent with NSW Government policy and priorities to increase security and reliability of water supplies to customers and communities of NSW.

## Wentworth to Broken Hill Pipeline

On 21 November 2016 a *Direction to the Board of WaterNSW to secure the water supply of Broken Hill 2016* (the Pipeline Direction) was made. This directed WaterNSW to arrange for the construction, operation and maintenance of a pipeline from the Murray River to the existing Mica Street Water Treatment Plant in Broken Hill, including any associated infrastructure necessary for operation such as new or upgraded distribution pipelines or pump

stations. The pipeline is to generally run along the Silver City Highway road easement.

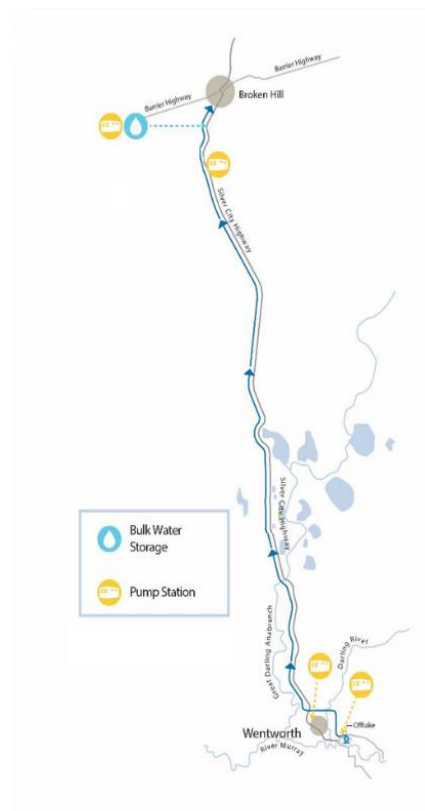
On 31 August 2017 an additional *Direction to the Board of WaterNSW in relation to the construction of the Broken Hill pipeline 2017* was received. This directed WaterNSW to ensure that:

- the minimum targets set in the NSW Infrastructure Skills Legacy Program are met for the construction of the pipeline
- Australian rolled steel is substantially used in the construction of the pipeline, regardless of where the pipe is manufactured.

The pipeline was fully operational in April 2019 and has been critical in ensuring a safe and secure water supply to the Broken Hill community, which is one of the hottest and driest regions in the country.

Figure 1 is illustrative of the pipeline and associated infrastructure.

Figure 1 Schematic of the pipeline



## How long will the regulatory period be?

Given the assets have only been recently constructed, WaterNSW is proposing a five-year regulatory period, covering the period between 1 July 2022 to 30 June 2027.

## Customers covered by this proposal.

The customers of the pipeline and those who are affected by this pricing proposal include:

- Essential Water
- a small number of pastoral landholders who may be supplied with raw water from offtakes along the pipeline.

Essential Water will be submitting their pricing proposal to IPART at the same time as WaterNSW's proposal. Water NSW's revenue requirement is expected to be reflected in Essential Water's pricing proposal. In line with their current price determination, Essential Water will seek a contribution from the NSW Government to help meet those costs.

## What are the main features of our proposal?

WaterNSW proposes a five-year determination period with risk mitigation measures to support an efficient allocation of risk and provide WaterNSW with accountability for those factors within our reasonable control.

Our proposal involves targeted investments to operate and maintain the assets in manner that is in the best interest of customers, while continuing to minimise costs to customers.

We propose to maintain the tariff structures from the 2019 Determination with average bills proposed to decrease marginally in real terms at the start of the 2022 Determination period (i.e. 1 July 2022) assuming constant 2021-22 water sales volumes.

### Regulated Asset Base

An important determinant of prices is the value of the regulated asset base (RAB).

The RAB is used to determine Water NSW's return on and of investment which is included in customer prices. We are proposing an opening RAB value of **\$401 million**,

reflecting the actual costs of construction of the pipeline.

### Revenue Requirement

Consistent with the current price determinations, we are proposing a price cap approach, not a revenue cap approach to regulation. On the basis of the prices we have proposed, an illustrative averaged revenue requirement of **\$24.5 million** (2021-22 real dollars) per annum over the proposed five-year term of the determination is proposed. This is based on an average per annum utilisation of the pipeline of 5,534 ML.

This illustrative revenue requirement is comprised of approximately \$4.5 million (2021-22 real dollars) in operating and maintenance costs and \$20 million (2021-22 real dollars) in RAB return on and of costs and tax allowance.

We propose a five-year determination period with risk mitigation measures to support an efficient allocation of risk and provide WaterNSW with accountability for those factors within our reasonable control. If appropriate risk mitigation measures are not implemented, we propose a shorter determination period (i.e. three years) to reasonably manage identified risks in the outer years and to align to our other determination timelines.

### Offtake outlets

We are proposing annual charges per offtake outlet of **\$7,381** (2021-22 real dollars) per annum fixed charge, plus a variable charge of \$0.22 per kilolitre of demand per offtake outlet.

## What happens next?

WaterNSW lodged its pricing proposal with IPART on 30 June 2021. The proposal will be available publicly on IPART's website. The following table provides a high level timetable of the review process as indicated to WaterNSW by IPART.

Activity	Time
WaterNSW pricing proposal due	30 June 2021
Release issues paper	September 2021
Submissions to issue paper due	October 2021
Public hearing	November 2021
Release draft report and determination	March 2022
Submissions to draft report due	April 2022
Release final report and determination	End of May 2022
New prices to apply	1 July 2022