

25 September 2018

WHAT

IPART is determining Essential Water's maximum prices for providing:

- ▼ **Water** to Broken Hill, Menindee, Silverton, Sunset Strip and some Far West graziers
- ▼ **Sewerage** to Broken Hill
- ▼ **Trade waste services**, and
- ▼ **Miscellaneous services**.

These prices will apply from 1 July 2019.

Our Issues Paper summarises Essential Water's pricing proposal and outlines our initial positions where we have them.

A major focus of this review is ensuring bills remain affordable once the Murray River to Broken Hill pipeline is operational.

PROPOSED PRICES

Under its proposed prices, Essential Water estimates that water and sewerage bills for:

- ▼ **Residential customers** would increase by an average of 6.8% per year, including inflation (or a 4.2% per year increase in real terms).
- ▼ **Non-residential customers** would increase by an average of 6.8% per year, including inflation (or a 4.2% per year increase in real terms).

Essential Water's proposal is summarised on page 2.

HOW

We have proposed a three step process to establish Essential Water's efficient costs and to set affordable prices for customers (page 3). This process involves setting prices for bulk water and the Murray River

to Broken Hill pipeline in separate reviews (page 4).

In our Issues Paper, we have identified some key issues for the review (page 5).

WHEN

Key dates for this review

13 July 2018	Essential Water's pricing proposal submitted
25 Sep 2018	IPART Issues Paper released
30 Oct 2018	Public submissions on Issues Paper due
20 Nov 2018	Public hearing in Broken Hill
Early April 2019	IPART will release Draft Report and Determinations
Late April 2019	Public submissions on Draft Report due
Late May 2019	IPART will release Final Report and Determinations

WHAT NEXT

We are now interested in stakeholders' views on Essential Water's proposed prices as well as the questions we raise in our Issues Paper. We will draw on stakeholders' feedback in making our draft determination.

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

Essential Energy price review

Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240

Unless they are identified as confidential, we plan to put all submissions on our website soon after the closing date for submissions.

If you would like us to add you to our stakeholder list for this review please email us at Water@ipart.nsw.gov.au.

Summary of Essential Water’s proposal

Bills and prices



Under Essential Water’s proposed prices, typical water and sewerage bills would increase on average by 30% over four years, including inflation.

- ▼ A typical residential bill would be \$1,595 in 2022, a \$371 increase
- ▼ A typical non-residential bill would be \$13,230 in 2022, a \$3,081 increase

Forecast residential prices (without inflation)	2018-19	2019-20	2020-21	2021-22	2022-23	Change 2018-23
Water service charge \$/pa	328	342	356	371	387	18.1%
Water usage charge \$/kL	1.80	1.88	1.96	2.04	2.13	18.1%
Sewerage service charge \$/pa	536	558	582	607	633	18.1%

Required revenue



Essential Water proposed a Notional Revenue Requirement of \$100.1 million over a 4-year determination period. On average, this is \$25 million per year, around 9.6% higher than forecast revenue from customers in 2018-19.

Essential Water’s proposed costs do not include the costs of the Murray River to Broken Hill Pipeline, or the cost of consequential works that Essential Water considers are needed as a result of the Broken Hill pipeline.

Operating Costs

Essential Water has proposed operating expenditure of \$57.3 million, which is 2.7% lower than we allowed for in our last price review, after accounting for inflation. Essential Water proposed to achieve savings from decommissioning the Menindee Lakes Pipeline, and reducing fleet and labour costs.

Capital Costs

Essential Water has proposed capital expenditure of \$65.7 million, about 54% higher than we allowed in our last price review, after accounting for inflation. Roughly half of this proposed expenditure is to replace the Wills Street Wastewater Treatment plant.

Demand



Essential Water forecasts residential water demand to fall by 1% per year, in line with population. Total water demand is predicted to fall by 0.4% per year.

Water demand from non-residential customers and mines is forecast to remain constant for the next four years.

How we will set affordable prices

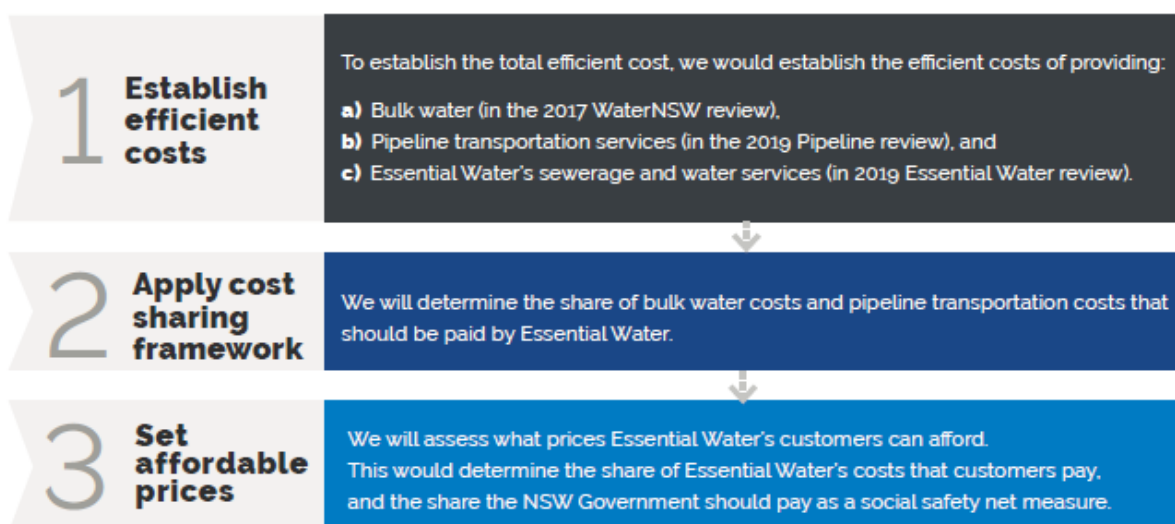
We will use a three step framework that:

1. Establishes the total efficient cost required to deliver Essential Water’s services.
2. Applies our cost sharing framework to decide what share of efficient costs should be notionally allocated to Essential Water’s customers.
3. Assesses what prices customers can afford to pay, before setting prices to recover Essential Water customers’ actual share of efficient costs.

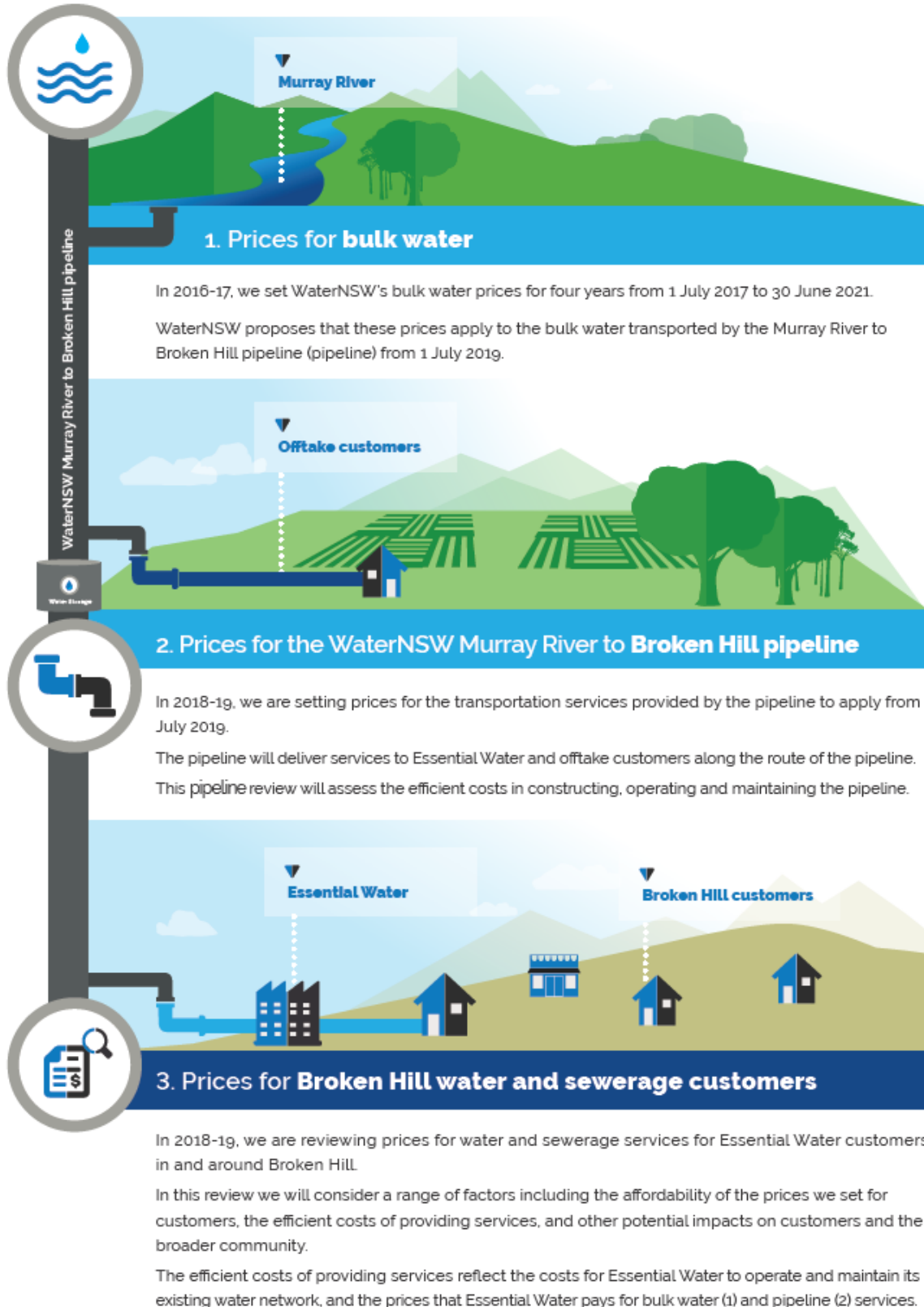
The figure below provides an overview of our proposed framework.



We propose a **three-step process** to calculate the share of **efficient costs** which Essential Water customers should pay:



We will set pipeline prices separately



Key issues for this review

Key issue	Summary
What are Essential Water's efficient costs?	<p>We set prices to recover the revenue Essential Water needs to deliver its services efficiently. We will investigate what costs are prudent and efficient to deliver an appropriate standard of service to Essential Water's customers.</p> <p>Essential Water has proposed a number of major capital projects including a new sewerage treatment plant and a program of consequential works to integrate the Murray River to Broken Hill pipeline into Essential Water's supply network.</p>
What share of costs are affordable for customers?	<p>Once we determine Essential Water's efficient costs of providing its services, we will then assess:</p> <ul style="list-style-type: none"> ▼ what share of these costs should be notionally allocated to Essential Water's customers, and ▼ what share of these costs should actually be recovered from customers via prices, taking into account a quantitative and qualitative assessment of what customers can afford to pay.
What is Essential Water's future water demand?	<p>We need to decide on Essential Energy's forecast water sales, customer numbers and sewerage volumes in order to calculate water and sewerage prices. If our forecasts differ markedly from Essential Water's actual sales, it would under or over-recover its required revenue over the determination period.</p> <p>Forecasting water demand in Broken Hill is difficult because recent water usage may not be a good guide of future consumption, given the impact of water restrictions, and to the extent that the new Broken Hill pipeline delivers a more reliable source of water.</p>
Should all prices change by the same amount?	<p>An important issue for this review is the extent to which price changes should vary across different services and geographic areas. Essential Water has proposed nearly uniform price increases for water, sewerage and all other services. Instead, price increases could be based on the changes in the costs of providing individual services.</p>

How stakeholders can have their say

Stakeholders will have multiple opportunities to express their views during this review, including by:

- ▼ making a submission in response to this Issues Paper and Essential Water’s pricing proposal by **30 October 2018**
- ▼ attending the public hearing on **20 November 2018**, and
- ▼ making a submission in response to our Draft Report.

We will consider the comments of all stakeholders before making draft and final decisions. We will also engage expert consultants to assist us in reviewing Essential Water’s operating and capital expenditure proposals.

