

25 September 2018



WHAT

IPART is determining the maximum prices for the services provided by WaterNSW's Murray River to Broken Hill pipeline (the Pipeline).

These prices will apply from 1 July 2019.

Our Issues Paper outlines WaterNSW's pricing proposal and details our initial positions where we have them.

A major focus of this review is assessing the efficient costs of constructing, operating and maintaining the Pipeline.



PROPOSED PRICES

WaterNSW has proposed price structures and levels to recover its expected costs.

WaterNSW's proposed prices recover the cost of capital associated with designing and constructing the Pipeline as well as the ongoing costs WaterNSW will incur to operate and maintain the Pipeline.



HOW

We will set maximum prices for the Pipeline by determining the efficient costs of providing the Pipeline's services, subject to the NSW Government's directions to WaterNSW. This will include deciding what share of costs should be recovered from Essential Water, and what share should be recovered from offtake customers.

As part of this review, we will also apply our cost sharing framework to determine how the Pipeline's costs should be notionally shared between Essential Water's customers and the NSW Government (on behalf of the broader NSW community).

This will determine the notional customer share of Essential Water's total efficient costs in our concurrent review of Essential Water's prices.

In our review of Essential Water's prices, we will then also consider what customers in and around Broken Hill can afford to pay.



WHEN

Key dates for this review

29 June 2018	WaterNSW'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 Determination
Late April 2019	Public submissions on Draft Report due
Late May 2019	IPART will release Final Report and Determination



WHAT NEXT

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

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

Broken Hill Pipeline 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.

Summary of WaterNSW’s proposal

Prices



WaterNSW has proposed that the majority of its revenue requirement be recovered through fixed charges and that the majority of the Pipeline’s costs be passed onto Essential Water. WaterNSW is also proposing to serve a small number of offtake customers along the Pipeline.

WaterNSW is proposing that prices for offtake customers would:

- ▼ reflect the incremental costs of supplying offtake customers, and
- ▼ provide a small contribution to the fixed costs of the Pipeline (which would otherwise be recovered from Essential Water).

Required revenue



WaterNSW proposed a Notional Revenue Requirement of \$123.4 million over a 4-year period to 2022-23. On average, this is \$30.8 million per year.

WaterNSW’s proposed costs do not include the costs of Essential Water’s water and sewerage services in Broken Hill. These costs will be included in the Essential Water pricing review.

Operating Costs

WaterNSW proposed operating expenditure of around \$20 million over the 4-year period to 2022-23.

About half of this operating expenditure is the cost of electricity for the pumps to propel the water up the pipeline.

Capital Costs

WaterNSW proposed capital expenditure of \$445 million on the construction of the Pipeline over 2017-18 and 2018-19, with \$0.6 million proposed over the 4-year period to 2022-23.

WaterNSW proposed separate capital expenditure of \$0.3 million over 2017-18 and 2018-19 for the 3 offtakes included in the pricing proposal.

Demand



WaterNSW has forecast higher demand for water from the Broken Hill community over the 4-year period to 2022-23.

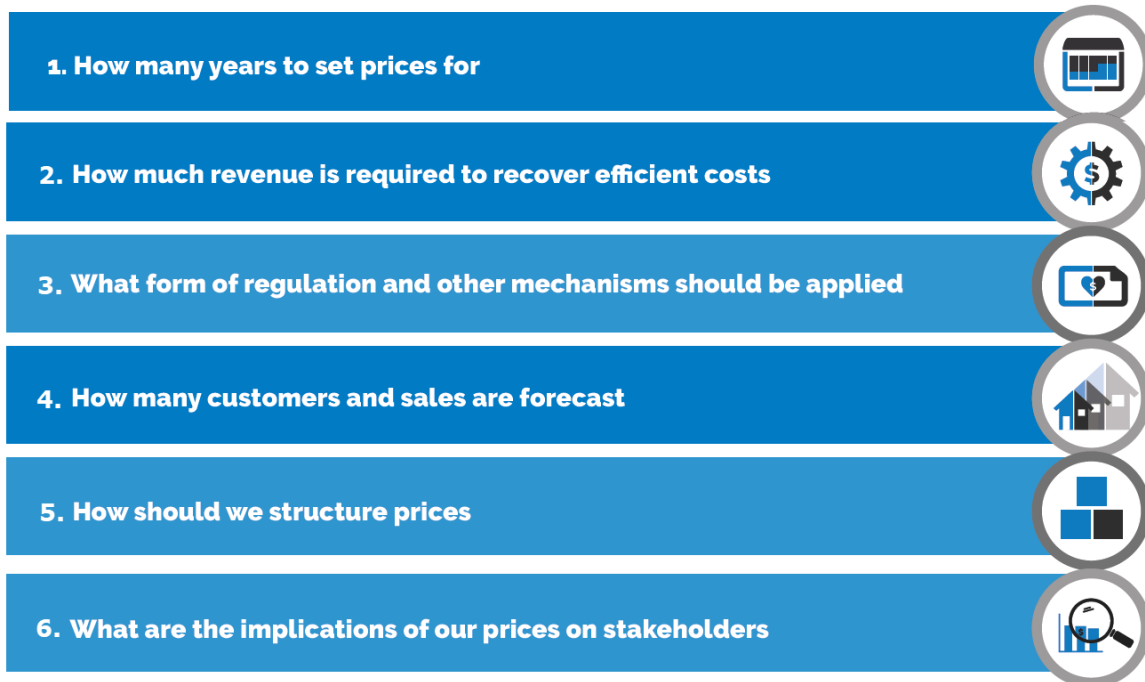
Forecast water demand is a major driver of costs to construct and operate the Pipeline.

The key issues for this review

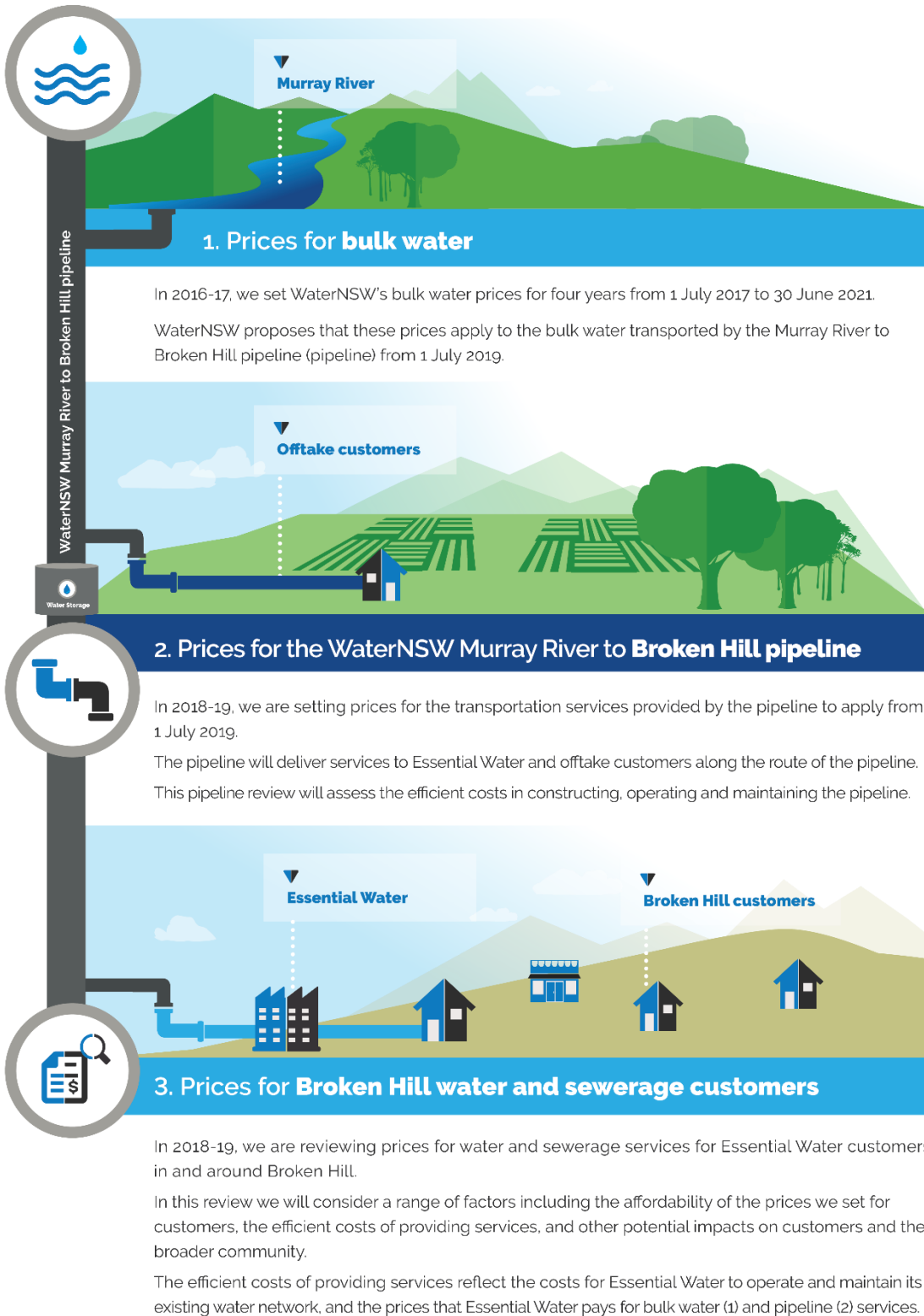
Our Issues Paper sets out the issues and decisions we will need to consider in determining the maximum prices for the transportation services provided by the Pipeline.

A summary of the key issues is detailed in the below figure.

At the end of each chapter we list the questions we are seeking comment on and invite stakeholders to have their say by submitting a submission in response to our questions. For convenience, all our questions are listed under Section 1.6 of our opening Chapter.



We will set the Pipeline prices separately



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 WaterNSW’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 WaterNSW’s operating and capital expenditure proposals.

