

FACT SHEET

Water and sewerage prices for non-residential customers in Broken Hill

Based on *Determination and Report: Essential Energy's water, sewerage and other services in Broken Hill from 1 July 2014 to 30 June 2018*
June 2014

On 23 June 2014, IPART released its determination on prices that Essential Energy (trading as Essential Water) may charge for providing water, sewerage and other services in Broken Hill and surrounding areas, during the 4 years from 1 July 2014 to 30 June 2018.

This fact sheet explains how the determination will affect water and sewerage bills of Essential Energy's non-residential customers.

Prices will be slightly higher than those proposed under the draft determination released in March, but they are still well below those requested by Essential Energy. The relatively small increases in prices, and the resulting small impact on customer bills, reflect our assessment of Essential Energy's prudent and efficient costs.

Since our draft report, we have carefully reviewed our decisions in response to stakeholders' submissions, as part of our review process. As a result, we have increased the level of operating expenditure allowed by reducing the productivity adjustment applied in the draft report, allowed for a marginal increase in capital expenditure, and allowed for an increase in the rate of return on assets to reflect updated market information. IPART is confident that the decisions would allow Essential Energy to continue to provide quality services and meet regulatory standards.

IPART will re-assess Essential Energy's expenditure at the next determination, as per our normal review processes. We will adjust prices at the next determination to reflect Essential Energy's actual prudent and efficient capital expenditure incurred over the next 4 years.

Under our determination, the higher Tier 2 water usage prices have been removed, in response to community concerns that these prices were unnecessarily discouraging water consumption and our assessment of the marginal cost of supply (see details below).

Prices – impact of removing the inclining block tariff for water usage

Table 1 shows water and sewerage prices for non-residential customers.

Table 1 IPART’s decisions on non-residential water and sewerage prices (\$2013/14)

Year ended 30 June	2013/14	2014/15	2015/16	2016/17	2017/18	% change 2014-2018
Water usage (\$/kL)						
<i>Treated water</i>						
Tier 1	1.67	1.67	1.67	1.67	1.67	0%
Tier 2	2.80	1.67	1.67	1.67	1.67	-40%
<i>Untreated water for a pipeline customer</i>						
Tier 1	0.72	0.72	0.72	0.72	0.72	0%
Tier 2	1.08	0.72	0.72	0.72	0.72	-33%
Water service charges (\$/pa)						
Non-residential meter- based service charge (20mm) ^a	253.66	303.86	303.86	303.86	303.86	20%
Sewerage usage (\$/kL)						
	1.19	1.19	1.19	1.19	1.19	0%
Sewerage service charges (\$/pa)						
Non-residential meter- based service charge (20mm) ^a	709.39	709.39	709.39	709.39	709.39	0%

^a Meter based charge is based on a 20mm meter. Applicable meter charges for larger meters are set using the following formula: (meter size)²x20mm meter charge/400.

Source: IPART analysis.

In response to stakeholders’ concerns that the inclining block tariffs are unnecessarily discouraging water consumption and our assessment of the marginal cost of water supply, we have set a single water usage price by removing Tier 2 prices. We have set the water usage price for each water quality type at its current Tier 1 price, and it will increase by the rate of inflation each year.

We have set sewerage prices at 2013/14 levels, and they will increase by the rate of inflation each year.

Customer bills

Table 2 shows the impact of our decisions on water and sewerage bills for non-residential customers with varied levels of water usage, differing metering arrangements and standard discharge percentages.

Due to the removal of the Tier 2 water usage charge, bill impacts for large users with usage in excess of 400 kL per year will depend on how much of their current usage occurs in the summer period, when the Tier 2 usage threshold is currently 600 kL.¹ For example, a customer with a 32mm meter using 1,000 kL of water per year will have its bill vary between -0.3% and 4.0% over the 4 years, including inflation, depending on how much is currently used during the summer period.

Table 2 Non-residential annual water and sewerage bills (\$nominal)

Financial year ending 30 June	2013/14 ^a	2014/15	2015/16	2016/17	2017/18	% change 2014-18	% change average annual
Treated water and sewerage							
20mm with 250 kL usage	1,506.15	1,601.49	1,641.52	1,682.56	1,724.63	14.5%	3.4%
Non-summer period: all consumption above 400 kL currently charged at Tier 2^a							
32mm with 1,000 kL usage	5,490.21	5,083.57	5,210.65	5,340.92	5,474.44	-0.3%	-0.1%
80mm with 5,000 kL usage	31,951.31	28,355.60	29,064.49	29,791.10	30,535.88	-4.4%	-1.1%
Summer period: consumption between 400 & 600 kL charged at Tier 1^b							
32mm with 1,000 kL usage	5,264.21	5,083.57	5,510.65	5,340.92	5,474.44	4.0%	1.0%
80mm with 5,000 kL usage	31,725.31	28,355.60	29,064.49	29,791.10	30,535.88	-3.7%	-1.0%

^a Currently thresholds apply for Tier 2 usage charges. The threshold for Tier 2 water usage prices is 600 kL per year in the summer months and 400 kL per year at other times.

^b Consumption above 600 kL per year is currently charged at Tier 2 rates, at any time of year.

Note: We used a standard discharge factor of 83%, as indicated in Essential Energy's submission (p 62), to estimate bills.

Source: IPART analysis.

In this determination, we have introduced a minimum sewerage service charge for non-residential customers. The minimum charge is set at the sewerage service charge for residential customers.

Trade waste

Essential Energy provides liquid trade waste services to non-residential customers in the city of Broken Hill only. We have accepted Essential Energy's proposed charges, and they will rise in line with inflation.

¹ We have set prices in real dollars, excluding the effects of inflation. When we calculate customer bills on a nominal basis, including the effects of inflation, we have used inflation of 2.9% from 2013/14 to 2014/15 and 2.5% per year thereafter. These inflation rates mean that estimated inflation will be 10.8% over the 4 years of the determination period.

Reasons for the changes

We set prices based on our assessment of Essential Energy's efficient costs. The prices are lower than Essential Energy's proposals because:

- ▼ Our decision on Essential Energy's efficient operating expenditure in 2017/18 is 12.8% lower than Essential Energy's 2013/14 expenditure, to take account of efficiencies.
- ▼ Our decision on Essential Energy's prudent and efficient capital expenditure is \$38.8 million over the 4 years of the determination period. This is 26% lower than Essential Energy's proposal of \$52.2 million.
- ▼ Our Weighted Average Cost of Capital (WACC) of 5.2%, using our standard methodology, is lower than Essential Energy's proposed WACC of 5.9%.

We consider that the prices in the determination would allow Essential Energy to continue to provide services, maintain its financial viability and comply with its environmental and service obligations.

Other changes in the 2014 determination

Cost-reflective mines' prices

The 2014 determination is the first time that we will set prices for Essential Energy's water services to the mines in Broken Hill. Essential Energy proposed cost-reflective prices for the mines, with no subsidy between other customers and the mines.²

As part of our review, we engaged a consultant to consider Essential Energy's cost allocation methodology. Overall, we found that applying the recommendations of our consultant, with our adjustments where necessary, did not result in large changes to the overall revenue to be paid by the mines. We therefore decided to maintain the mines' contribution to Essential Energy's water revenue at its current (2013/14) share over the next 4 years.

Once we had established the mines' portion of Essential Energy's water revenue requirement, we then set water prices for the mines to recover this revenue as follows:

- ▼ the mines are subject to the same water usage prices as other customers
- ▼ the mines' annual water service charges ('fixed charges') are set to recover the difference between the mines' share of Essential Energy's revenue requirement and forecast revenue from water usage charges from the mines
- ▼ the 'fixed charges' to be recovered from each mine are based on their respective share of total mines' water consumption over recent years.

² Essential Energy submission to IPART, 13 September 2013, p 58.