

FACT SHEET

Water and sewerage prices for 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 the prices that Essential Energy (trading as Essential Water) may charge for providing water, sewerage and other services to its customers 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 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. From 1 July 2014, the typical bill will rise by \$88 (which includes inflation of \$38).¹ Typical bills will then increase in line with inflation over the remaining 3 years.

Since our draft report, we have carefully reviewed our decisions in response to stakeholder submissions. 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).

¹ We have calculated a typical residential bill for a customer in a house based on 300 kL usage per year, the same basis as Essential Energy's typical residential bill.

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

Table 1 shows water and sewerage prices for residential customers.

Table 1 IPART’s decisions on 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>Chlorinated water</i>						
Tier 1	1.08	1.08	1.08	1.08	1.08	0%
Tier 2	1.84	1.08	1.08	1.08	1.08	-41%
<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 charge (\$/pa)	253.66	303.86	303.86	303.86	303.86	20%
Sewerage service charge (\$/pa)	496.79	496.79	496.79	496.79	496.79	0%

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 indicative water and sewerage bills for residential customers under our decisions.

Under our final determination, a typical residential bill in Broken Hill will increase from \$1,251 in 2013/14 to \$1,442 in 2017/18, including the effects of inflation. This is an average increase of 3.6% per year, or 15.3% over the 4 years, and is marginally higher than estimated inflation of 10.8% over the 4 years.²

² 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.

Table 2 Residential bills over the 2014 determination period (\$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							
200 kL	1,084.45	1,167.55	1,196.74	1,226.66	1,257.32	15.9%	3.8%
275 kL	1,209.70	1,296.43	1,328.84	1,362.07	1,396.12	15.4%	3.6%
300 kL	1,251.45	1,339.39	1,372.88	1,407.20	1,442.38	15.3%	3.6%
400 kL	1,418.45	1,511.24	1,549.02	1,587.74	1,627.44	14.7%	3.5%
Non-summer period: all consumption above 400 kL currently charged at Tier 2^a							
500 kL	1,698.45	1,683.08	1,725.16	1,768.29	1,812.49	6.7%	1.6%
650 kL ^b	2,118.45	1,940.84	1,989.37	2,039.10	2,090.08	-1.3%	-0.3%
Summer period: consumption between 400 & 600 kL charged at Tier 1							
500 kL	1,585.45	1,683.08	1,725.16	1,768.29	1,812.49	14.3%	3.4%
650 kL ^b	1,892.45	1,940.84	1,989.37	2,039.10	2,090.08	10.4%	2.5%

^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.

Source: IPART analysis.

For customers with consumption currently below 400 kL, which is the lowest threshold for Tier 2 water usage prices, bills will increase slightly more than the rate of inflation.

The bill impact for customers with usage greater than 400 kL of water will depend on how much of their current usage occurs in the summer period, when the Tier 2 usage threshold is currently 600 kL. For example, a customer who uses 500 kL per year will experience bill increases of between 6.7% and 14.3% over the 4-year determination period, depending on how much is currently used during the summer period. If the additional 100 kL is currently used completely during the summer period, then the bill increase will be slightly higher than inflation, around 14.3% over 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 the mines and other customers.³

As part of our review, we engaged a consultant to consider Essential Energy's cost allocation methodology and advise on an appropriate methodology. 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.

³ Essential Energy submission to IPART, 13 September 2013, p 58.