

FACT SHEET

Water and sewerage prices for residential customers in Broken Hill

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

On 10 March 2014, IPART released its Draft Determination on the prices that Essential Energy can charge for providing water, sewerage and other services to its Broken Hill customers during the 4 years from 1 July 2014 to 30 June 2018.

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

The small increases in draft prices, and the resulting small impact on customer bills, reflect our assessment of Essential Energy's prudent and efficient costs, using our analysis and judgement. IPART is confident that the draft decisions will 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 in the next determination if we find that Essential Energy's prudent and efficient capital expenditure is greater than we allowed.

Under our Draft 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.

Draft prices have been set to recover Essential Energy's efficient costs without the need for a subsidy from the NSW Government. The future of any subsidy is a matter for the NSW Government.

Draft prices - removing the inclining block tariff for water usage

Table 1 shows draft water and sewerage prices for residential customers.

Table 1 IPART's draft 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	258.55	258.55	258.55	258.55	2.0%
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 draft decisions.

Under our draft decisions, a typical residential bill in Broken Hill will increase from \$1,251 in 2013/14 to \$1,389 in 2017/18, including the effects of inflation.¹ This is an increase of 2.6% per year, or 11.0% over the 4 years, and is marginally higher than estimated inflation of 10.6% over the 4 years.²

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.

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 an estimated rate of inflation of 2.7% from 2013/14 to 2014/15 and 2.5% per year thereafter. These inflation rates mean that estimated inflation will be 10.6% over the 4 years of the determination period.

Essential Energy's proposal would see a typical water and sewerage bill increase from \$1,251 in 2013/14 to \$1,738 in 2017/18, including the effects of inflation. This would be an estimated increase of 8.6% per year, or 38.9% 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	1,118.75	1,146.72	1,175.39	1,204.77	11.1%	2.7%
275 kL	1,209.70	1,247.38	1,278.56	1,310.53	1,343.29	11.0%	2.7%
300 kL	1,251.45	1,290.26	1,322.51	1,355.58	1,389.47	11.0%	2.6%
400 kL	1,418.45	1,461.77	1,498.31	1,535.77	1,574.16	11.0%	2.6%
Non-summer period: all consumption above 400 kL currently charged at Tier 2^a							
500 kL	1,698.45	1,633.28	1,674.11	1,715.96	1,758.86	3.6%	0.9%
650 kL ^b	2,118.45	1,890.54	1,937.80	1,986.25	2,035.90	-3.9%	-1.0%
Summer period: consumption between 400 & 600 kL charged at Tier 1							
500 kL	1,585.45	1,633.28	1,674.11	1,715.96	1,758.86	10.9%	2.6%
650 kL ^b	1,892.45	1,890.54	1,937.80	1,986.25	2,035.90	7.6%	1.8%

^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 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 3.6% and 10.9% 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 10.9% over the determination period.

Reasons for the changes

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

- ▼ Our draft decision on Essential Energy's efficient operating expenditure in 2017/18 is 15% lower than Essential Energy's 2013/14 expenditure, to take account of efficiencies.

- ▼ Our draft decision on Essential Energy's prudent and efficient capital expenditure is \$35.5 million over the 4 years of the determination period. This is 32% lower than Essential Energy's proposal of \$52.2 million.
- ▼ Our Weighted Average Cost of Capital (WACC) of 4.9%, using our standard methodology, is lower than Essential Energy's proposed WACC of 5.9%.

We consider that the draft prices in the Draft Determination will 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 Draft 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 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 established the mines' portion of Essential Energy's revenue requirement, we then set prices for the mines to recover this revenue, using the same methodology we use for other residential and non-residential customers' prices.

What happens next?

We invite all interested parties, including individuals, businesses, business groups, councils, community groups, and NSW Government departments or agencies to make written submissions to the review by **11 April 2014**. Late submissions may not be accepted at the discretion of IPART.

Our normal practice is to make submissions publicly available on our website <www.ipart.nsw.gov.au> as soon as possible after the closing date for submissions.

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



Submissions may comment on any or all of the draft decisions in the Draft Report, and on any other issues stakeholders consider relevant to the review.

We would prefer to receive submissions electronically via our online submission form:

http://www.ipart.nsw.gov.au/Home/For_Consumers/Having_your_say/Lodge_a_submission

or via email: ipart@ipart.nsw.gov.au.

During the next stage of the review, we will consider all matters raised in submissions in response to the Draft Report and Draft Determination, and then make our Final Determination in June 2014. The new charges are expected to apply from 1 July 2014.