

5 November 2018

[REDACTED]  
[REDACTED]  
IPART New South Wales  
Level 15, 2-24 Rawson Place  
SYDNEY NSW 2880

Dear Ms. Deng,

**Perilya's Response to Essential Energy Proposal – Cost Reflective Mines (Water) Pricing**

I write to provide you with a formal submission of response from Perilya Broken Hill Ltd (PBHL) to Essential Energy's Cost Reflective Mines Pricing proposal (the "Proposal"), as submitted to PBHL and lodged on the IPART website for public review and comment last month.

Our submission is presented in two parts. The first being the pricing structure incorporating a large fixed component plus unit rate per kL and the second being the commercial position of the PBHL mines in light of the substation year on year increases set out in the proposal.

**1. Proposed Pricing Structure**

Water supply is a significant cost input to the PBHL business and for that reason, we have been in regular communication with Essential Energy and NSW Treasury over an extended period of time to voice our concern in relation to the prohibitively high costs PBHL is charged for water under the Mines pricing agreement. In particular, we have expressed our desire to see more commercially prudent changes to the existing pricing structure that would financially incentivise us, and industry generally, to work to reduce consumption through increased recycling and efficiency of use.

Despite the lack of any financial incentive, PBHL has been implementing projects on a large scale in order to improve the efficiency of water usage in our Broken Hill operations and thereby effectively reducing consumption. We have been able to do this while, at the same time, increasing both the size of our Broken Hill operations and local employment opportunities with the recommencement of the North Mine. A review of the real costs of filtered water consumed by PBHL in 2018 indicates that, prior to PBHL implementing its most recent water efficiency project ("Water Efficiency Project"), the average monthly consumption was [REDACTED] kL at a cost of \$[REDACTED] per kL. Since implementing the Water Efficiency Project, the average monthly consumption has been reduced to [REDACTED] kL but at an increased cost of \$[REDACTED] per kL to PBHL.

To summarise the effect of the pricing structure and overall cost in real terms to PBHL, the Water Efficiency Project has reduced consumption by 44.8% but in

turn has *increased* the real cost per unit rate of filtered water, including the fixed component, by 38.8%. Therefore, any cost saving to PBHL is disproportionate to the reduced consumption which negatively offsets the payback of the Water Efficiency Project.

## 2. PBHL's Commercial Position

The PBHL mines are a high cost, remnant, mining operation. The company is highly exposed to global economic conditions, including fluctuations in the Australian dollar against the US dollar coupled with the rise and fall in zinc and lead prices. The survival of our business, and the [REDACTED] direct and indirect jobs, depends heavily on our continued ability to cut costs and improve performance together with our parent company's willingness to invest further funds to sustain operations. For this reason, PBHL is under increasing pressure to be able to minimise the impact of any services and supplier cost increases to its operations.

Despite PBHL being able to lower its operating cost and surviving beyond the GFC, we have still seen increases in our cost of production over recent years that could have us in a loss making position in the future if metal prices continue to drop. If PBHL was to be in such a position, this will have a significant effect on not only the Broken Hill community directly, but also surrounding and supporting industries in NSW.

The current proposal in the Essential Energy review on prices (2019-2023) will see an annual increase of 6.8% per annum real cost of water including an expected inflation rate of 2.5%. This increase will cost PBHL an estimated \$[REDACTED]m over the term of the pricing review period and is significantly disproportionate in respect to all other services and supplier proposed price increases in the market. Such an increase will present an additional burden on the PBHL operations to remain competitive and also to be able to continue operating through negative fluctuations in the commodity cycles.

In the absence of significant increases in global commodity prices, PBHL's survival in Broken Hill depends on our ability to reduce costs of production to an amount below the prices we receive for our product. Consequently, PBHL is fundamentally opposed to any commercial arrangement that impedes its ability to reduce costs through improved efficiency or other extra ordinary inflationary drivers as we believe would be the case with the Proposal.

Please do not hesitate to call me if you wish to discuss any aspect of this submission.

Yours sincerely

A black rectangular box redacting the signature of Bruce Byrne.

Bruce Byrne

**General Manager  
Perilya Broken Hill Operations**