Essential Water

Submission to IPART's Review of Prices for Water and Sewerage Services to Broken Hill and Surrounds

19 November 2013

Overview

Overview of Essential Water

- Provides water, sewerage and trade waste services to approximately 10,500 customers in Broken Hill and surrounds
- Operates within a unique environment:
  - extremely arid
  - in 8 out of 10 years, water needs to be pumped from Menindee
  - high lead levels in top soil require dust suppression
  - population is declining by 1-2 per cent per annum, and almost 30 per cent are pensioners
- Aged infrastructure requires significant upgrade
- When costs are balanced against revenue, the business has never made a profit and continues to generate losses

Water Quality & Sewerage Services

- For the period July 2011 to June 2012 and July 2012 to June 2013 – Essential Water achieved

95% environmental compliance	only one reportable environmental breach (June 2013)
100% water quality compliance	that is, no health or aesthetic breaches of the Australian Drinking Water Guidelines (ADWG)
100% complaint resolution	all complaints resolved within target timeframe (< 4 days)

Our Submission

- Much of the infrastructure is aged and in need of refurbishment or replacement
  - NSW Public Works have reviewed all infrastructure projects
- Improvement in operating costs proposed through
  - Reduction in staff through natural attrition and a hiring freeze
  - Labour and material increases capped at CPI, actual increases above this will be offset by productivity & efficiency improvements
  - Ongoing focus on all operating costs
- For the period 1 July 2014 to 30 June 2018
  - Capital expenditure of $52.2 million
  - Operating expenditure of $56.4 million

Key drivers

Our purpose

To be of service to our communities by securing and delivering reliable, environmentally responsible and cost-effective water supply and sewerage services to our customers

- Ensure **future water security** & **water quality** for our customers
- Meet **compliance** standards
- Meet **environmental** standards

Impact on customers

- Annual average price increases of CPI + 5.9 per cent
  - For a residential customer using 300 kilolitres per year, the proposed increase will add approximately $80 each year to their Essential Water bill
  - For a non-residential customers using 1,000 kilolitres of water a year, the proposed increase will add approximately $304 each year

- Pensioners' water bills will continue to be offset by the NSW Government's pensioner rebate scheme, providing $175 per year per household

Mines Pricing

- Mining operations in around Broken Hill are the largest water users supplied by Essential Water
- Our proposal to IPART takes into account issues arising from the expiry of the NSW Government's mine agreement on 20 June 2012
- Mines pricing will form part of IPART's Determination for the next regulatory period
- Cost reflective prices have been developed for the mines

Treasury Subsidy

- The subsidy that the NSW Government has previously provided to support Essential Water's operations and reduce the cost of water and sewerages services for the Broken Hill community **expired on 30 June 2013.**


essential water
ABN 37 428 185 226

TAX INVOICE
invoice no. 28299999

please pay
$385.31
by 6 January 2012
includes $30.32 overdue

MR SAMPLE
1 SAMPLE STREET
BROKEN HILL NSW 2880

customer number
18888-8

bill enquiries
13 23 91

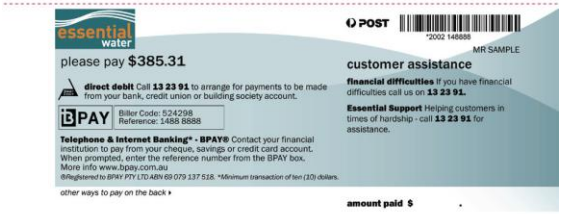
supply interruptions
13 20 80

info online
www.essentialwater.com.au

account summary — invoice date 09/12/11

BALANCE LAST BILL	$210.32
we received by instalments	$180.00CR
overdue	$30.32
THIS WATER BILL	
1 Sample Street Broken Hill	
92 days water supply from 06/09/2011 to 07/12/2011	
water charges	$398.97
government energy rebate	$43.98CR
total new charges	$354.99
+ overdue from last bill	$30.32
total this bill	$385.31

see back for details


essential water

POST

MR SAMPLE

please pay $385.31

customer assistance

direct debit Call **13 23 91** to arrange for payments to be made from your bank, credit union or building society account.

financial difficulties If you have financial difficulties call us on **13 23 91.**

BPAY Biller Code: 524298 Reference: 1488 8888

Essential Support Helping customers in times of hardship - call **13 23 91** for assistance.

Telephone & Internet Banking® - BPAY® Contact your financial institution to pay from your cheque, savings or credit card account. When prompted, enter the reference number from the BPAY box. More info www.bpay.com.au

*®Registered to BPAY PTY LTD ABN 69 079 137 518. *Minimum transaction of ten (10) dollars.*

other ways to pay on the back

amount paid $

- Essential Energy is funding the water subsidy this financial year, but it is important to note that the price increases we're proposing for 2014-18 don't include continuation of the subsidy arrangement.

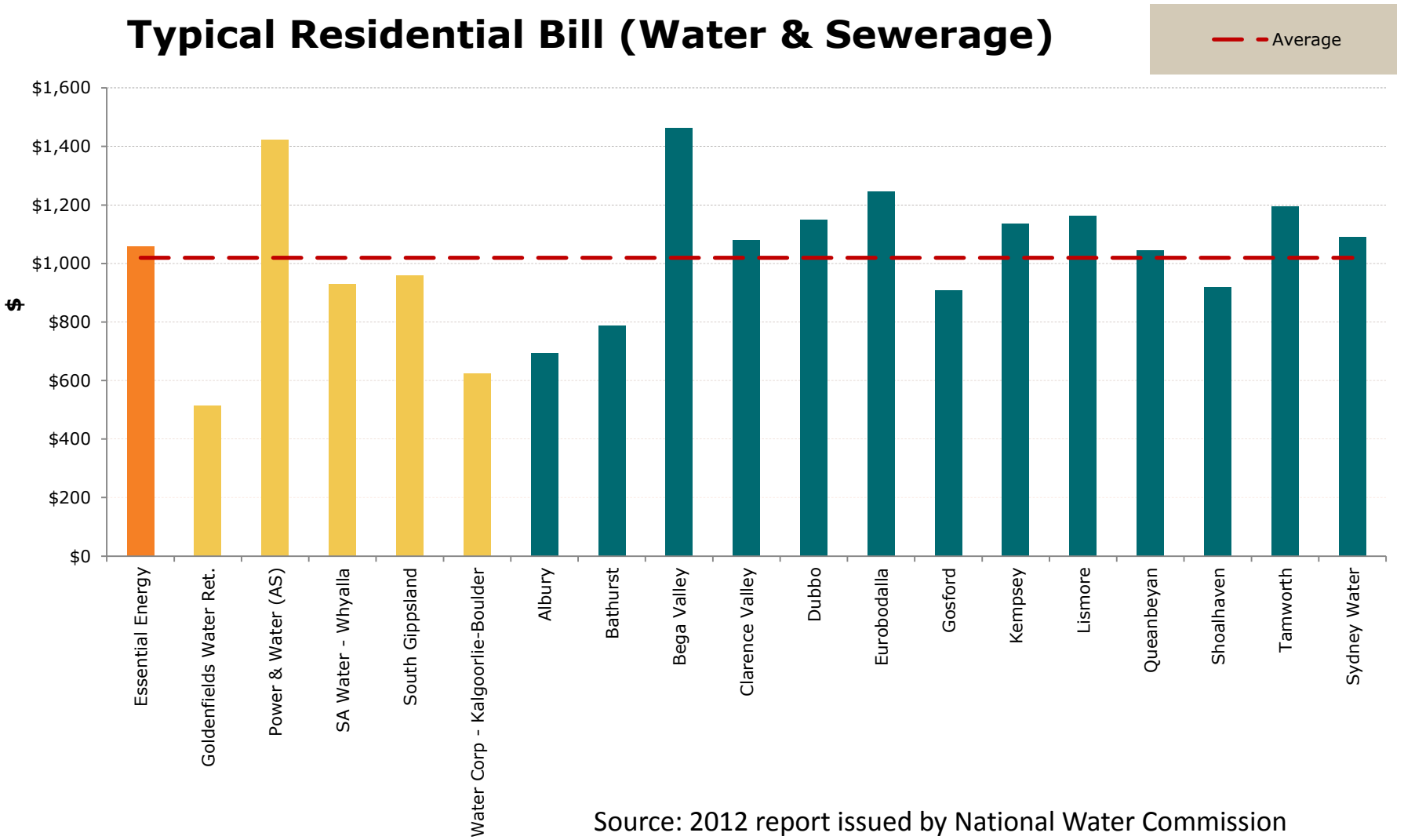
Customer Engagement

- **Regular engagement with:**
  - Water Customer Council – bi-annual meetings
  - State Member for Murray Darling – regular meetings
  - Energy & Water Ombudsman (EWON)
  - Progress Associations
  - Community Service Organisations
  - Welfare agencies
  - Local media
- **Customer Surveys**
  - 2012 Customer Satisfaction Survey
    - Price an issue for 63% of respondents
  - 2013 – Pricing Review Survey
    - 69 Respondents
      - 69% were satisfied or very satisfied
      - 16% unsatisfied or very unsatisfied
      - Price an issue for 55% of respondents
- **Focus Groups**
  - Held in August 2013

Key Points

- Pricing is an issue
- Acknowledgement that infrastructure is aging and needs upgrading
- Water is critical to controlling lead contamination
- Discontinuation of Treasury subsidy is a concern

How Do We Compare?

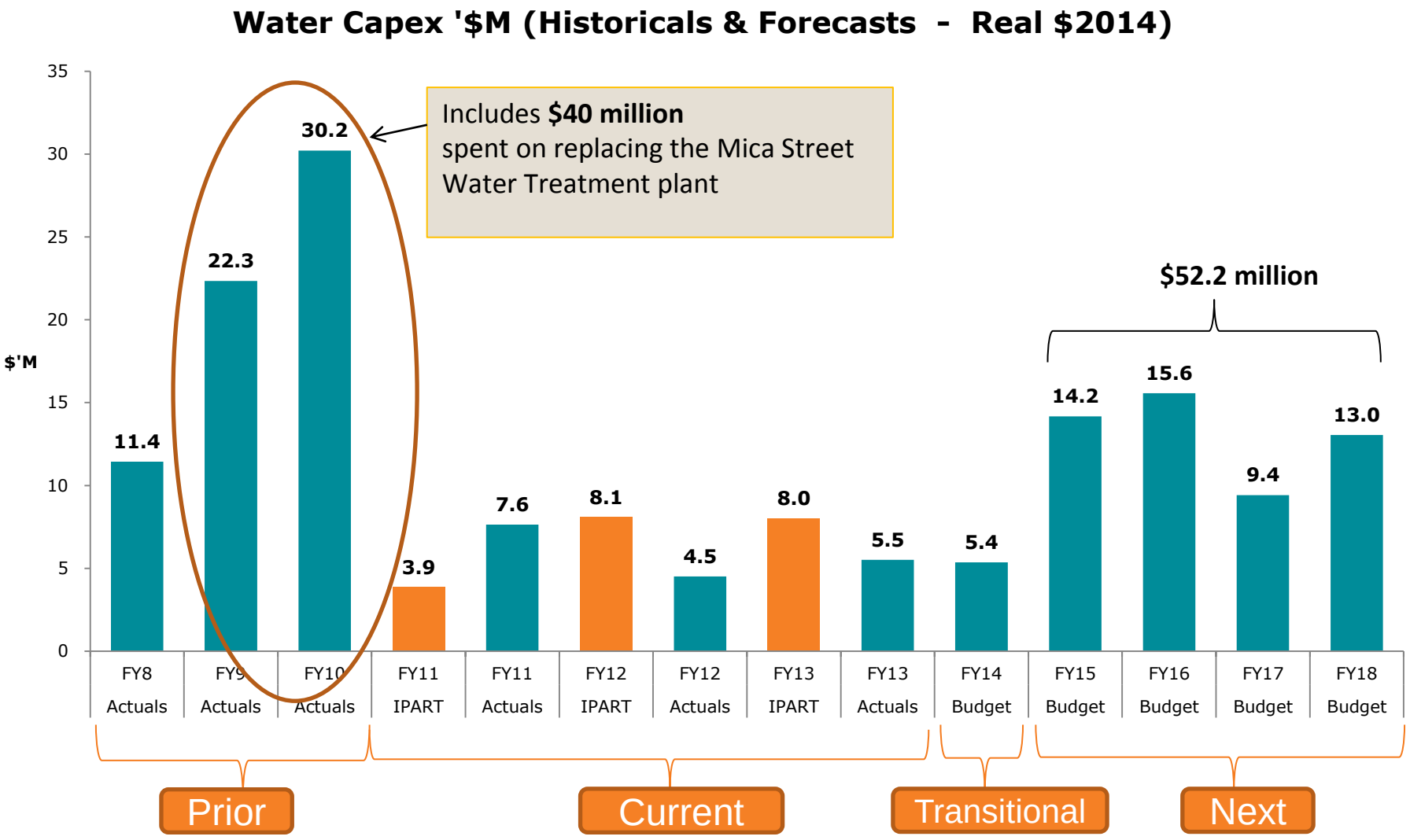


Source: 2012 report issued by National Water Commission

Proposed investment in infrastructure

(our capital expenditure, or capex)

Capital Expenditure Forecast



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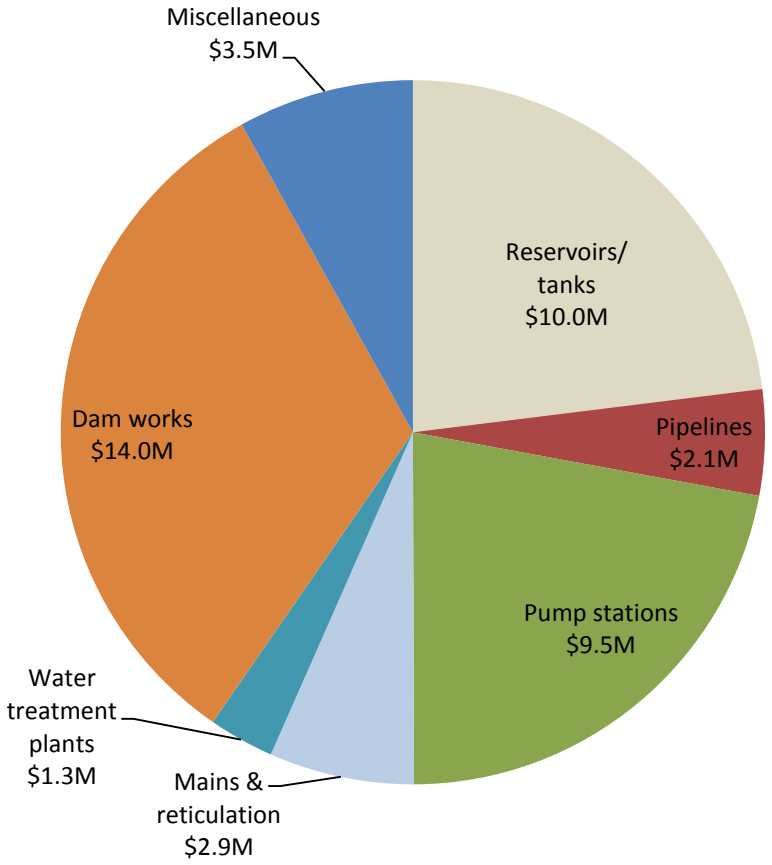
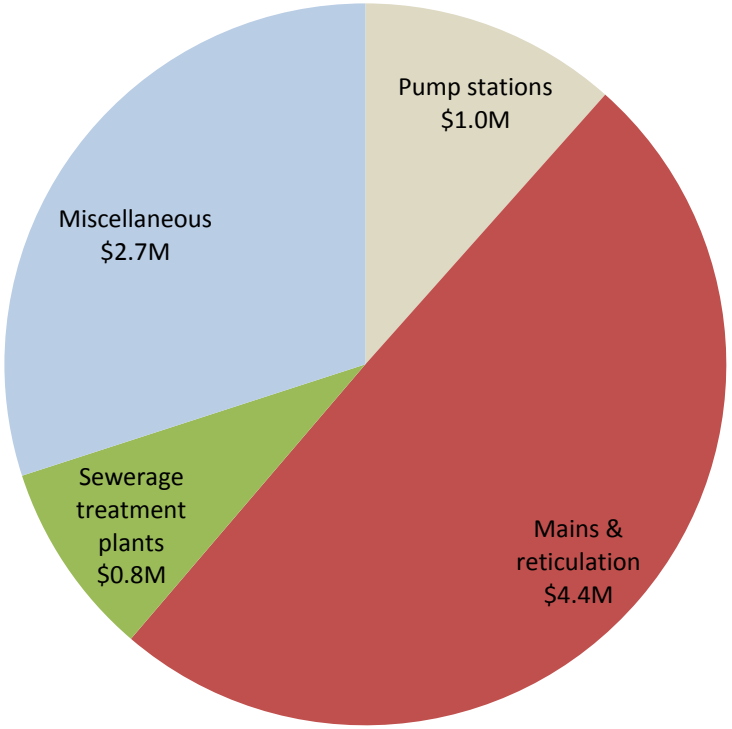
Key Projects

Water Capex 2015-18 (Total $43.3M)



Sewerage Capex 2015-18 (Total $8.9M)



Stephens Creek Reservoir

Construct a New Pump Station

- **This will secure water supply in the event of major failure of, or planned maintenance at, the existing Stephens Creek Pumping Station**
- **Cost – $4.7m**

Wills Street Waste Water Treatment Plant

- **Ageing infrastructure requires replacement**
- **Cost – $0.7m in 2017-18 for planning and design (total cost – $25m)**

Stephens Creek & Imperial Lake
Dam Wall Rehabilitation

- **We have received guidance and direction from the Dam Safety Committee to rehabilitate Stephens Creek and Imperial Lake dam walls and spillways to mitigate risk of failure in flood events**
- **Stephens Creek cost – $6.6m**
- **Imperial Lake cost – $3.6m**

Menindee and Umberumberka Pipeline

- **Sections of the Menindee and Umberumberka pipelines need prioritised replacement**
- **Cost – $2.1m**

Rocky Hill & Mica Street
Service Reservoir Replacement

- **We need to install additional service reservoirs at Rocky Hill and Mica Street to enable refurbishment of the existing service reservoirs and increase supply availability**
- **Cost – $9.4m**

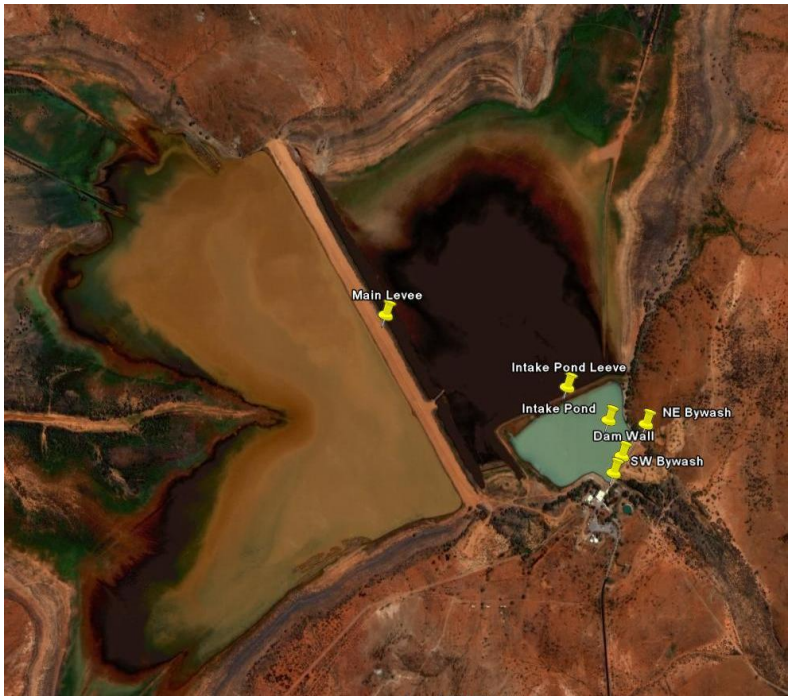
Interior

Water Reticulation

- **Water reticulation system replacement**
- **The Broken Hill water reticulation network needs prioritised repairs**
- **$2.9m**

Stephen's Creek
Reservoir Maintenance

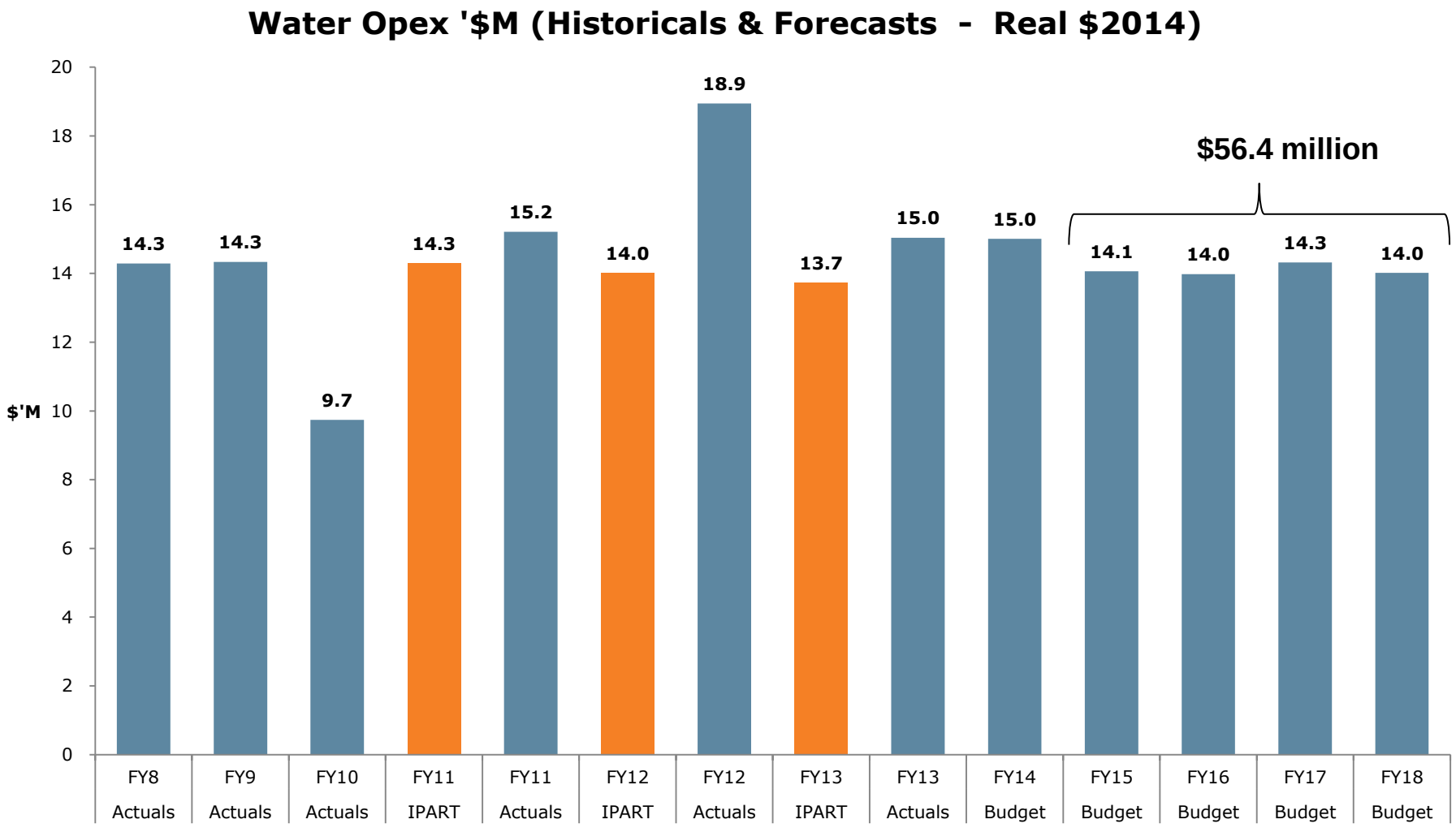
- **The Stephens Creek reservoir levees need repairs to reduce evaporation, and work is required to increase intake pond storage capacity to improve water quality**
- **Cost – $3.7m**



Forecast Expenditure on Managing Water & Sewerage Operations

(operational expenditure, or opex)

Opex Expenditure Forecast



Operating Plan

Plan

- There are costs involved in maintaining & operating existing infrastructure
- Our operational expenditure, or opex, includes water pumping costs, chemicals, electricity, salaries and wages, fleet and Information Technology (IT)
- Opex is forecast to decline by ~10% (in real terms) over 2015-18, compared to the previous four years, as operating efficiencies are achieved

Drivers

- Salaries & wages are forecast to decline due to a hiring freeze & natural attrition
- Based on higher electricity volumes during dryer periods, our proposal incorporates forecast higher costs for chemicals & pumping costs

Questions