

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL**

**REVIEW OF ESSENTIAL ENERGY'S WATER AND SEWERAGE PRICES**

**Tribunal Members**

**Dr Peter Boxall, Chairman  
Mr Simon Draper and Dr Paul Paterson, Members**

**Members of the Secretariat**

**Ms Rebecca Bishop and Mr Matthew Edgerton**

**Broken Hill Civic Centre,  
Broken Hill**

**On Tuesday, 19 November 2013 at 9.00am**

1 OPENING COMMENTS

2  
3 THE CHAIRMAN: Okay, let's get started. Firstly, good  
4 morning and thank you all for coming, and I would like to  
5 welcome you to this public hearing. We are conducting a  
6 review to determine the maximum water and sewerage prices  
7 that Essential Energy will be permitted to charge in the  
8 Broken Hill, Menindee, Sunset Strip and Silverton areas for  
9 the period commencing 1 July 2014.

10  
11 First, to introduce ourselves: I am Peter Boxall and  
12 I am the Chairman of the Independent Pricing and Regulatory  
13 Tribunal, IPART. On my left is Simon Draper, a Tribunal  
14 member, and on my right Paul Paterson, a Tribunal member.

15  
16 Second, I would like to thank you those who have  
17 already taken the time and trouble to make a written  
18 submission in response to our issues paper. All  
19 submissions, including Essential Energy's proposal, are  
20 available to the public through our website.

21  
22 This public hearing is a very important part of our  
23 consultation process for this review. In addition to the  
24 views expressed in written submissions, we will consider the  
25 views you provide today in making our decisions on prices  
26 for Essential Energy's water services here in Broken Hill  
27 and surrounding areas.

28  
29 Following this public hearing, we will release a draft  
30 determination and report for public comment in March 2014.  
31 People will then have about four weeks to make further  
32 written submissions for consideration by the Tribunal  
33 before it makes its final decisions. A final report and  
34 determination will be released in June 2014, which will  
35 contain the maximum prices to apply from 1 July 2014.

36  
37 In general terms, our price review will be seeking to  
38 determine: what are Essential Energy's efficient costs of  
39 providing its water and wastewater services and, second,  
40 how should these costs be recovered through prices. We  
41 therefore seek your views on these questions.

42  
43 We also seek your views on related questions,  
44 including, but not necessarily limited to, the following:  
45 is the quality of Essential Energy's services appropriate?  
46 In considering this question, we note there is a potential  
47 trade-off between service standards and costs. However, we

1 also need to be conscious that Essential Energy is subject  
2 to regulatory requirements, which it must meet.

3  
4 Another question is: is Essential Energy's proposed  
5 expenditure to provide these services appropriate? That  
6 is, is Essential Energy proposing the best projects to  
7 provide the required services and are its proposed costs  
8 efficient? In this context, I note that Essential Energy  
9 has proposed a capital program over the next four years of  
10 around \$13 million per annum. It contends that much of its  
11 infrastructure is approaching the end of its useful life  
12 and requires progressive replacement.

13  
14 We will also consider: how long should prices remain  
15 in effect before we look at them again? The prices that we  
16 set will operate from 1 July 2014. Essential Energy has  
17 suggested that we use this review to set prices for the  
18 next four years, that is, until 30 June 2018.

19  
20 Another important question is: is the structure of  
21 prices right? For example, is the split of prices  
22 appropriate in terms of fixed and variable charges,  
23 residential and non-residential charges, and summer and  
24 non-summer charges? In particular, should the current  
25 two-tiered approach to water usage prices continue?  
26 Essential Energy has proposed that we maintain the current  
27 price structures and increase most prices at the same rate  
28 each year. We welcome your views on this matter.

29  
30 A related issue is: what prices should the mines pay?  
31 In answering this question, we will need to consider the  
32 costs Essential Energy incurs in providing services to  
33 these customers.

34  
35 Apart from these issues, the question of a subsidy  
36 from the New South Wales Government is an important issue  
37 for all stakeholders. However, the question of a future or  
38 ongoing subsidy is a matter for the New South Wales  
39 Government, not IPART. From 1 July 2014, we propose to set  
40 prices to reflect our findings on Essential Energy's  
41 efficient costs. If there is a further subsidy from the  
42 New South Wales Government, then prices would be lower  
43 than otherwise would be the case.

44  
45 Before we commence proceedings today, I would like to  
46 say a few words about the process for this hearing. You  
47 have available to you an agenda that indicates the order in

1 which presentations will be made to the Tribunal. After a  
2 short introduction from the Secretariat, Essential Energy  
3 will give a presentation on its proposals, and there will  
4 be time for questions by IPART and by members of the  
5 audience.

6  
7 Then we will have short presentations by the  
8 organisations and individuals who have made written  
9 submissions to our review. At the end of these short  
10 presentations, I will then make time available for IPART to  
11 ask some questions and also for members of the audience to  
12 express their views on matters in the presentations and ask  
13 any further questions.

14  
15 Assisting the Tribunal today are members of the IPART  
16 Secretariat, including Matthew Edgerton, Director of Water  
17 and Licensing, and Rebecca Bishop, Program Manager, Water  
18 Pricing.

19  
20 I should advise you that today's hearing will be  
21 recorded by our transcriber. Therefore, to assist the  
22 transcriber, I ask that on all occasions you please  
23 identify yourself and, where appropriate, your organisation  
24 before speaking. I also ask that you speak clearly. A  
25 copy of the transcript will be made available on our  
26 website next week.

27  
28 So we will commence today's proceedings with the  
29 Tribunal's Secretariat making a short presentation, and I  
30 invite Rebecca Bishop to provide some context and present  
31 an overview of the issues.

### 32 OVERVIEW

33 MS BISHOP: Good morning. I am Rebecca Bishop and I will  
34 give a short summary of Essential Energy's proposals and  
35 the things that we will look at in this review to set water  
36 and sewerage prices here in Broken Hill.

37  
38  
39  
40 First, let's look at Essential Energy's bills. This  
41 slide shows residential water and sewerage bills for a  
42 household using 200 kLs per year of water. When we first  
43 set prices in Broken Hill in 2010, the bill for a household  
44 like this was \$854. You can see that the bill has  
45 increased above the rate of inflation to \$1085 in June  
46 2013, or that is 8.7 per cent per year including the effect  
47 of inflation. Bills are remaining unchanged in 2013-14

1 because we deferred our review by one year, and we will set  
2 new prices from July 2014.

3  
4 Essential Energy is proposing that bills increase over  
5 the next four years by 8.5 per cent per year, including  
6 inflation, which is estimated to be 2.5 per cent per year.  
7 In determining the prices that will apply, we will be  
8 reviewing this proposal and setting prices to reflect our  
9 findings on Essential Energy's efficient costs. We will  
10 also consider impacts on customers.

11  
12 We set prices based on Essential Energy's efficient  
13 costs, and we use a building block approach to determine  
14 what these efficient costs are. These are the main  
15 elements: operating costs, the costs of maintaining and  
16 investing in assets, and an allowance for taxation. Prices  
17 will then be set to recover our findings on efficient  
18 costs. To advise on Essential Energy's proposed costs  
19 and the efficiency of the costs we have engaged a  
20 consultant to review Essential Energy's proposed operating  
21 and capital expenditures, and we have methodologies by  
22 which we set the return on and the return of assets and the  
23 tax allowance. If there are large bill impacts, we may  
24 consider phasing in price increases, but we first consider  
25 the efficient costs that Essential Energy needs to deliver  
26 its services.

27  
28 Now we will look at operating expenditure. This slide  
29 shows that operating costs are not a reason for Essential  
30 Energy's proposed price increases. At our last price  
31 determination, we set prices based on the operating costs  
32 shown by the orange dots. Essential Energy's proposed  
33 operating costs are about equal to those efficient costs  
34 that we allowed in the last determination period. The  
35 proposed costs for the next four years are a reduction of  
36 around \$7.8 million in real dollars or 12.1 per cent, compared  
37 with the actual and forecast expenditure in the four years  
38 ending in 30 June 2014.

39  
40 Now turning to capital expenditure, this is a reason  
41 for Essential Energy's proposed price increases. Essential  
42 Energy is proposing a capital expenditure program of \$52.2  
43 million in real dollars over the four years to 2017-18, on  
44 average about \$13 million a year. Actual and planned  
45 capital expenditure in the current four years ending in  
46 June next year is around \$5.7 million per year, much lower  
47 than is proposed going forward. Essential Energy states

1 that the proposed capital expenditure relates to dam safety  
2 and the replacement and refurbishment of aging assets.  
3 IPART will be reviewing whether this proposed expenditure  
4 is prudent and efficient, that is, is Essential Energy  
5 proposing a sound program.

6  
7 Some of the main projects are: the Stephens Creek and  
8 the Imperial Lake reservoirs' dam wall rehabilitation, a  
9 Stephens Creek emergency pumping station, replacement of  
10 the Mica Street and Rocky Hill service reservoirs, and  
11 repairs to sewer reticulation and refurbishment of sewerage  
12 infrastructure here in Broken Hill.

13  
14 Other issues for this review. This is the first time  
15 that IPART will be setting prices for the mines in  
16 Broken Hill. Essential Energy's submission proposes that  
17 all customers will pay prices that reflect the costs of  
18 providing services to them, that is, there will be no  
19 cross-subsidy between different types of customers. We  
20 will review Essential Energy's proposal and set prices to  
21 reflect our findings on efficient costs, and we aim to  
22 achieve a fair balance between the mines and other  
23 customers.

24  
25 We will also look at the structure of prices, whether  
26 Essential Energy's current tariff structure should remain  
27 in place. For most water customers, there is a fixed  
28 charge and two levels of usage charge: a lower charge for  
29 consumption below a threshold of 400 kilolitres per year  
30 and then a higher charge for usage above that amount. In  
31 the summer period, these thresholds are higher, meaning  
32 that people can use more water at the lower charge. Some  
33 stakeholders have made comments on the structure of water  
34 charges, and we will seek further information on that  
35 today.

36  
37 When reviewing these price structures, we will  
38 consider the impacts on customers. We will also consider  
39 customer impacts when we have established the efficient  
40 costs that we consider will allow Essential Energy to  
41 deliver its services; for example, we may consider phasing  
42 in price increases. Your comments and questions on these  
43 and other issues for the review are welcome today. Thank  
44 you.

45  
46 THE CHAIRMAN: Thank you very much, Rebecca. I now  
47 call on Essential Energy to make a presentation.

1  
2 ESSENTIAL ENERGY

3  
4 MR HUMPHREYS: Thank you, Chairman. First of all, thank  
5 you for the opportunity to come today to present on an  
6 important topic for the residents and community of Broken  
7 Hill.

8  
9 My name is Gary Humphreys and I'm the Chief Operating  
10 Officer of Essential Energy, which owns and operates  
11 Essential Water. Just before I start, I would like to  
12 introduce some colleagues I've got here today: we've got  
13 Natalie Lindsay, the Manager of Regulatory Affairs; Andrew  
14 Sinclair, General Manager of Finance and Compliance; Guy  
15 Chick, Regional Manager for Far West and Water; and Steve  
16 Bastian, the Group Manager of Water here in Broken Hill.

17  
18 I'm going to take about 10 minutes to take us through  
19 an overview of Essential Water and to start to talk about  
20 our proposal and then I'll hand to Guy Chick, who will take  
21 you through a little bit more detail on our specific  
22 programs.

23  
24 Essential Water provides water, sewerage and trade  
25 waste services to about 10,500 customers in Broken Hill and  
26 surrounds. As most people in this room would know, it's an  
27 extremely arid environment, with only 225 mls of rain per  
28 annum, and about eight out of those ten years, we need to  
29 pump water from the Menindee lake system out of the  
30 Darling River.

31  
32 You are also aware that there are high levels of  
33 topsoil required to suppress the lead in the soil in the  
34 surrounding areas. An ongoing issue for us is the capacity  
35 to pay of customers. There is a declining population  
36 within Broken Hill, and we're also well and truly aware of  
37 the community's ability to pay increased prices of water.

38  
39 One of the significant issues we do have is the age of  
40 our assets. The pipeline from Menindee was built in 1952  
41 and we have some assets that were built back in 1892. So a  
42 lot of our increases this year, or the next four years,  
43 relate to the increase in our capital program to replace  
44 many of those assets.

45  
46 It's important, as I go through these slides, to also  
47 point out that when you balance our revenues against our

1 profits, we do not generate a profit, the business actually  
2 generates losses. We don't pay any dividends to the  
3 government and this year alone, our accounting loss for the  
4 water business will be in the order of \$10 million-odd, and  
5 we don't see any significant reduction in those losses in  
6 the next three to four years. So it is important to note  
7 that the business does not make a profit.  
8

9 In relation to the services that we do provide, for  
10 the two years ending June 2013, we've had a 95 per cent  
11 compliance rate with our environmental issues, 100 per cent  
12 water quality compliance and 100 per cent complaint  
13 resolution. So as the Chairman said before, there is  
14 always a balance between the services that get delivered  
15 and the costs that are charged, but the service that is  
16 being provided is at this stage being provided at a very  
17 high standard.  
18

19 In relation to our submission, as I mentioned before,  
20 there is a lot of need for improved infrastructure for the  
21 age of our assets, so significant investment is required.  
22 As part of this process, we engaged New South Wales Public  
23 Works to do a full review of our works program to ensure  
24 that it is prudent and also that we had an external view of  
25 that works program, which was included in our submission to  
26 IPART.  
27

28 We are also well and truly aware of the ongoing need  
29 to contain our costs. We will be reducing staff members,  
30 done through natural attrition and a hiring freeze, also  
31 holding labour and material costs at CPI and ensuring that  
32 every other cost in our business is scrutinised to make  
33 sure that we are as efficient as we possibly can be. To  
34 that end, we are actually reducing our operating costs in  
35 real terms by 10 per cent over the period of regulatory  
36 determination. So we are well and truly aware of the  
37 importance to run a prudent and efficient business.  
38

39 For the period under question, July 2014 to 30 June  
40 2018, we have requested a capital expenditure program of  
41 \$52.2 million, which is up from \$23 million for the  
42 last regulatory period, and operating costs are remaining  
43 stable, as I said before, in nominal terms, but in real  
44 terms going down.  
45

46 The purpose of Essential Water is to deliver a service  
47 to our communities by securing and delivering reliable,

1 environmentally responsible and cost-effective water supply  
2 and sewerage services to our customers. That overall  
3 purpose is underpinned by three core objectives, and that  
4 is to ensure the future water security and water supply for  
5 customers of Broken Hill. We are well and truly it's a  
6 very unique asset that we have out here, with quite unique  
7 circumstances. So security of water supply in Broken Hill  
8 is a very important issue for the community. To meet our  
9 compliance standards and the ever-increasing environmental  
10 standards that we also must meet. So they are the three  
11 core objectives that underpin our overall purpose in the  
12 business.  
13

14 In relation to the impacts on customers, what we have  
15 requested, through our submission, is an average price  
16 increase of CPI plus 5.9 per cent. We are well and truly  
17 aware that any increase is not welcomed by the community,  
18 but we are also very conscious that we need to make sure  
19 that we provide a safe, reliable service to our communities  
20 for the future as well.  
21

22 That means for the average customer or a typical  
23 customer using 300 kilolitres per year, that will mean  
24 about an \$80 increase each year for the four years, and for  
25 non-residential customers that will mean around about a  
26 \$304 increase if you are using 1000 kilolitres per annum.  
27

28 Importantly, pensioners will continue to get rebates,  
29 to the tune of \$175 per household. Importantly, built into  
30 our submission, is that we have assumed the government  
31 subsidy will not continue, which I will talk about in a  
32 moment.  
33

34 Mines pricing. Back in 2002, an agreement was reached  
35 by the government and the mines to have a mines pricing  
36 arrangement in place for ten years. That mines agreement  
37 has now expired. Mines are a significant user of water  
38 from Essential Water, to the tune of 35-odd per cent of our  
39 consumption. Now that the mines agreement has expired, we  
40 have included in our proposal for IPART to make a  
41 determination on the appropriate level of pricing for the  
42 mines. Our views are those prices should be cost  
43 reflective, and that is what we have had included in our  
44 submission, is a cost reflective price for the mines.  
45

46 In relation to the Treasury subsidy, the subsidy  
47 expired on 30 June 2013. Essential Energy made the call

1 that we will continue with that subsidy this year. But  
2 moving forward, the government at this stage has not made  
3 its final determination on whether that subsidy will  
4 continue, and the government has stated that once IPART  
5 makes its final determination, they will make a decision on  
6 the ongoing need for that subsidy. But I just reinforce,  
7 at this stage we have not included the subsidy in pricing.  
8  
9 Customer engagement, a very important part of our  
10 program, to understand what customers value, what is  
11 important to the community. We have regular engagement,  
12 whether it be through the Water Customer Council, progress  
13 associations, welfare agencies to make sure that we get a  
14 wide view across the community of what the issues are in  
15 relation to water.  
16  
17 Recently, we did a survey - and thank you for the  
18 70-odd respondents that replied to that survey - and what  
19 we found was that most people were quite with the services  
20 that were being provided, and that is also supported by the  
21 information coming from the Electricity and Water  
22 Ombudsman, that Essential Water has a low level of  
23 complaints from our customers. So overall, customers seem  
24 quite satisfied with the services that we provide.  
25  
26 However, we also heard loud and clear that price is an  
27 issue. There is an understanding of the age of the  
28 infrastructure in town, obviously an important issue around  
29 the lead contamination, and a significant issue around the  
30 ongoing subsidy provided by the government. So we're well  
31 and truly aware that while we provide a high level of  
32 service, there are ongoing issues in relation to the cost  
33 of that service that need to obviously be considered.  
34  
35 Lastly, before I do hand to Guy Chick to go through  
36 the capital program, that is just how Essential Water  
37 compares to other water distributors across  
38 New South Wales. So as you can see, on the far left-hand  
39 side there, that shows the average bill as at 2012,  
40 compared to many other utilities. It is obviously very  
41 dangerous in using an average, but that just takes an  
42 average bill, comparing it to other utilities. So  
43 Essential Water is not out of step with what the cost of  
44 water is across other utilities.  
45  
46 I would now like to hand to Guy Chick to take us  
47 through the proposed investment program. Thank you.

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1  
2 MR CHICK: Welcome, Chairman and Tribunal members, and  
3 welcome folks. I'm Guy Chick, Regional Manager of Far West  
4 and Water for Essential Energy. If I could just spend some  
5 time with you to share with you some of the programs we've  
6 put to the IPART group for consideration, and mainly  
7 focussing on the larger capital programs and what have you.  
8  
9 Just a bit of an introduction here. Essential  
10 Energy - Essential Water, we've got a responsibility out here  
11 to maintain the water infrastructure, the sewerage  
12 infrastructure, the responsibility of making sure that we  
13 deliver to every one of you a safe and reliable water  
14 supply, and that doesn't come without many challenges.  
15 So it is a key focus to do that. We regularly have to  
16 assess the risks that the business runs, in other words, to  
17 do that, to deliver a safe and reliable supply, and that's  
18 with varying water qualities that we actually have to treat  
19 and things like that.  
20  
21 It has been well mentioned about aged infrastructure  
22 and I guess we can't probably cover that enough, but if you  
23 can picture when Broken Hill had a population say of 33,000  
24 people and we had to have an infrastructure that  
25 accommodated that population, and a pretty busy mining  
26 environment as well. Whilst our population has declined  
27 significantly, we still have that infrastructure still  
28 going to those extremes of this city to deliver water and  
29 sewerage services. In other words, whilst the population  
30 has declined, we most certainly still have the same  
31 infrastructure to cover.  
32  
33 Residences may have had three, four or five people in  
34 them, a lot of those residences now have got one person.  
35 But irrespective, that person in that house at the end of  
36 Dust Street, the top end of the north or what have you,  
37 when they turn that tap on, they expect, and we expect, to  
38 deliver them a safe, reliable supply. So that's one of the  
39 issues we have, is to continue to pumps to work, pipes to  
40 take the water and sewerage. Therein lies the challenge.  
41  
42 Just a quick snapshot, and first of all we'll address  
43 capital expenditure, in other words, the investment in the  
44 infrastructure. You can see rather big spikes on the left  
45 there, that's when they actually built the water filtration  
46 plant, and that is, I'd like to think, about 40 million  
47 good reasons why I think water quality in town is pretty

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Transcript produced by Merrill Corporation

1 good.  
2  
3 You'll see to the centre of the graph there the orange  
4 figures are those that are IPART estimates; the figures to  
5 the right, green-blue, they're our expenditures. Whilst it  
6 has dropped in the last regulatory period, I would like to  
7 think what it is actually before we jump into any project,  
8 we actually go and reassess it. So in other words, whilst  
9 we put up proposals for things to happen, circumstances  
10 have changed, and certainly a lot of projects we have put  
11 up we have actually questioned and we've been forced to go  
12 back and do many reviews.

13  
14 So there's a lot of projects that we have earmarked  
15 for the last regulatory period that we've had to carry  
16 over. The Wills Street sewerage plant - we'll get on to  
17 that one in a minute - but that was one in particular that  
18 was a real issue that we addressed last period, but we're  
19 still working through some solutions there. Menindee  
20 pipeline, that was another big issue at a similar meeting  
21 last time. We've done significant investigation work on  
22 that pipeline.

23  
24 These pie graphs are a quick snapshot of the capital  
25 spend on water and electricity, but just to cover a few.  
26 Interestingly on the left, water capex, you'll see that  
27 orange component there that takes up \$40 million. It is  
28 important to make note of that, that a lot of our business  
29 is driven by things that we've got to do, we don't have an  
30 option, and that dam work covers a component calls dam  
31 safety. So of the three dams we have, we have actually got  
32 to comply with the Dams Safety Committee. They're a group  
33 that obviously focus on the safety of dams in the event of  
34 catastrophic failure, and their position is that we have  
35 actually got to comply with certain standards that they  
36 impose. Of the three dams we have, there are two  
37 currently, and there's further detail, but Stephens Creek  
38 and Imperial Lake are most certainly under a fair bit of  
39 pressure for us to comply. So of that capital spend, 25  
40 per cent is on stuff that we have to comply with, we don't  
41 have an option.

42  
43 The pumping station, you see the green down at the  
44 right, that's around about \$10 million. We're doing a bit  
45 of work on a number of pumping stations there, but the  
46 predominance of that will be at Stephens Creek. Reservoirs  
47 and tanks, that takes up about another \$10 million and

1 there's a lot of aging tanks in town that are essential to  
2 our service, the water delivery part of that project.  
3  
4 Sewerage on the right, you'll see there right across  
5 the centre onto the right is mains and reticulation, about  
6 \$4.5 million. I would like to think that represents around  
7 about half of that graph. That's reflective of the age of  
8 our sewerage reticulation system, it really is in need of  
9 attention, and I think it's something we probably take for  
10 granted. Whilst we focus on water quality and what have  
11 you, you'd appreciate a reliable sewerage is just as  
12 important.

13  
14 The first key project I would like to introduce to you  
15 is the Stephens Creek reservoir pumping station. The  
16 snapshot you've got there, the brown colouring on the  
17 floor, that's not a tile, that is actually two foot of  
18 water, that we got back in February last year when the  
19 water levels up in Stephens Creek had actually started  
20 seeping in through the building. Whilst we had good  
21 knowledge that the building out there was very much in need  
22 of repair, that was a clear signal to us that things had to  
23 happen.

24  
25 Stephens Creek is crucial to the supply in  
26 Broken Hill, it has the capacity to pump the volumes that  
27 we need for this town, for this city and for industry and  
28 for residences. Should it ever fail, it will most  
29 certainly have some significant consequences. Whilst we  
30 can draw from Umberumberka, the capacity of that feed from  
31 Umberumberka will only take about 40 per cent of the demand  
32 in town. So it's essential that Stephens Creek capture and  
33 cover the needs of the Broken Hill community.

34  
35 That review we have undertaken here out at Stephens  
36 Creek is to install a new pump, basically a new pumping  
37 station, we're referring to it as No. 4 Pumping Station,  
38 but it's down for about \$4.7 million, and we view that as  
39 one of the critical infrastructures that we need to address  
40 to maintain a reliable supply in Broken Hill. We need to  
41 have the capacity to bring water straight in from Stephens  
42 Creek or straight in from Menindee through the station.

43  
44 So by the very nature of its location and the capacity  
45 that we propose for the replacement, it will work as an  
46 emergency pumping station but will also work in parallel  
47 with the other pumps in the existing station when we need

1 to upgrade or maintain them. So for us, it's one of the  
2 key infrastructure challenges we have and one that we are  
3 pursuing vigorously with IPART.  
4  
5 The next project, this is the Wills Street wastewater  
6 plant. I would suggest not many people have been out  
7 there, but that is one of the older infrastructures and it  
8 has been up for a while now in regards replacement. We put  
9 it up a number of years ago to basically build a new unit.  
10 We were asked to go back and review that again to see  
11 whether we could just piecemeal the improvements. The jury  
12 is still out, but most certainly it is an infrastructure  
13 we're going to have to give some urgent attention to.  
14 Because of its age, it has its own inherent issues.  
15 Obviously out there, we have to comply with the EPA, the  
16 Environment Protection Authority, and there are signals  
17 from their front as well that there are things we need to  
18 do. So the Wills Street sewerage plant, for us, is high on  
19 priorities as well.  
20  
21 I mention here the dam wall, this is to do with the  
22 Dam Safety Committee. That's a picture of Stephens Creek  
23 back in one of the many rainfalls we had over the last few  
24 years. Just to highlight that, the Dams Safety Committee is  
25 an organisation that ensures that we maintain our dams in a  
26 safe condition. Imperial Lake at this stage has been under  
27 review by us for a number of years, and working with the  
28 Dams Safety Committee, but there's money to be spent there  
29 to bring it up to the dam safety requirements.  
30  
31 I think it's fair to say that every time there is a  
32 disaster anywhere on the globe in regards dam failures, I  
33 think they probably review their standards, and it's in  
34 everyone's interest, I guess, that we maintain it. But as  
35 I said, this is an area, dam safety, is where we don't have  
36 an option, it's an area that the regulator will determine  
37 what we have to do and the standards we have to meet.  
38  
39 This is a topic that's hot on everyone's lips and  
40 that's the pipelines. The main attention, I think, was  
41 probably Menindee to Broken Hill, but the Umberumberka  
42 pipeline has got a fair few years on it as well.  
43 Obviously, it's capturing a picture there of one failure.  
44 We have undertaken significant investigation on the  
45 Menindee pipeline and whilst it most certainly is in need  
46 of repair and replacement, we're trying to extract as many  
47 years as we can out of that, so we have only put in about

1 \$2.1 million over the next four years, both on Umberumberka  
2 and the Menindee pipeline. We believe at that level we can  
3 still maintain the reliability of supply into Broken Hill.  
4 But once again, it's an infrastructure that, by its very  
5 age, is sending us signals every now and then as to some of  
6 its frailty.  
7  
8 Service reservoirs, this is interesting. We have got  
9 two major reservoir refurbishments and replacements here.  
10 The first one worth talking about is Rocky Hill, the  
11 television station there. By the very nature of its  
12 capacity, its holding and its elevation, it really is  
13 critical to the water supply in the northern part of  
14 Broken Hill. Other tanks depend on it because of its  
15 elevation. It is in real need of major works, and we're  
16 proposing to put up another tank there while we do those  
17 major works.  
18  
19 We can't keep that out of commission, that tank, we  
20 have to continue to have water at that location with  
21 efficient distribution around town. So major work on  
22 Rocky Hill. The pictures you have there is actually the  
23 site at Mica Street. Believe it not, that's about 100  
24 years old, that water storage there, but once again its  
25 very storage at the Mica Street filtration plant is crucial  
26 to the quality and reliability of supply around town.  
27  
28 The next project I would like to introduce is water  
29 retic, we've got about \$2.9 million there. Once again, as  
30 an aging infrastructure, we've just got to continue to  
31 concentrate on reticulation around town. A recent example,  
32 probably most people evidenced of an opportunity, is when  
33 there was a roundabout being reconstructed in Oxide Street,  
34 we took the opportunity there of replacing the major mains  
35 Stephens Creek to filtration plant, so there was an  
36 opportunity there. Reticulation in town, as you would  
37 appreciate, like everything else, is very old. So the  
38 program there is to take \$2.9 million over the four years  
39 to continue to work on that mains renewal.  
40  
41 The next project: that's a snapshot of Stephens  
42 Creek. You can see, let's call it bright green, down  
43 towards the bottom right-hand side, that's basically an  
44 intake pond storage. To minimise evaporation, we basically  
45 try and hold more water in that area, and there's major  
46 works needed out there to help us better manage where we  
47 store the water out there. As I said, it helps



1 evaporation, but by doing that it also helps with the  
2 quality of the water that we then get into Broken Hill for  
3 filtration. So in the interests of efficiency, saving  
4 money and better water quality, that's another project that  
5 we have included in the four-year program.  
6  
7 Okay, if we just move on to operating expenditure.  
8 I'll come to a very quick graph there, and I think this is  
9 similar to what was probably put up by Rebecca earlier on.  
10 You can see the movements and expenditure there, but the  
11 main thing is to the right there where we most certainly  
12 are focusing on cost reduction: 10 per cent in real terms  
13 over the four years.  
14  
15 Just as a matter of interest, too, you'll find when  
16 the spikes are up and down, when capex is up, opex is down.  
17 In other words, if we've had to defer any capex works  
18 because of further investigation or whatever, our  
19 resourcing goes over to do more work on the operating side.  
20 So you'll find the variables there balance each other out  
21 fundamentally through capex and opex.  
22  
23 Just a few things to share on the opex. What are we  
24 spending the money on? It's obviously salaries and wages.  
25 Electricity, in this regulatory period, as cycles go, I  
26 think we're going to go through dry periods, so we're going  
27 to be doing a fair bit of pumping. So there's going to be  
28 pretty high electricity costs there. If it hasn't been  
29 mentioned, we try and do that in off-peak. You'll find we  
30 can use more chemicals and obviously we're pretty mobile,  
31 so we have got a fairly big transport fleet built for it as  
32 well. We have also got a lot of systems behind the whole  
33 process we do, so we're putting that down as IT expense.  
34  
35 What are we doing in the future? Look, we really are  
36 trying to, through natural attrition, most certainly  
37 thoroughly review any job, whereby there's a resignation or  
38 retirement, and there is basically a freeze there to try  
39 and keep our numbers down on that front. We already have  
40 things in place on the electricity side where there have  
41 been issues there to cap costs and drive efficiency, that  
42 same thing under the same banner as applying to water. So  
43 there is a driving there of things like travel, overtime,  
44 things like that, and they are certainly under constant  
45 review in seeking efficiency. That's it for me, thank you.  
46  
47 THE CHAIRMAN: Thank you very much, Guy. We now have

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1 time for a few questions from the Secretariat and then I'll open  
2 it to the floor. Matthew.  
3  
4 MR EDGERTON: Guy, you mentioned the need for capital  
5 expenditure to comply with requirements of the Dams Safety  
6 Committee. Have you considered a range of different  
7 options to comply with the Dams Safety Committee, and are  
8 you certain that your proposed expenditure is the most  
9 efficient means of achieving this compliance?  
10  
11 MR CHICK: Matthew, at this stage Imperial Lake has  
12 undergone significant investigation and the options there,  
13 I think, will probably arrive at the most efficient. With  
14 Stephens Creek, we're still working through that.  
15  
16 MR EDGERTON: I guess just a follow-up question as well,  
17 then. You mentioned the need to replace or refurbish some  
18 of these assets. Have you considered the timing? For  
19 example, is there scope to defer some expenditure for a  
20 later point in time?  
21  
22 MR CHICK: I think what we have put up there is what we  
23 believe is stuff that needs to happen now. The Wills  
24 Street sewerage treatment plant, that was due for action  
25 now, but because we are constantly reviewing what's going  
26 on there, that has been further pushed back, and in this  
27 regulatory period, I think there's \$700,000 put aside to  
28 continue with preliminary work to kick it off in the  
29 following regulatory period. So I think there is already  
30 some timing addressed in regards to things that we have  
31 already pushed further on.  
32  
33 MS BISHOP: This could be a question for Gary or whoever  
34 would like to answer it, but it's concerning the price  
35 structures. You have proposed to continue applying an  
36 inclining block tariff structure for water usage. What is  
37 the rationale for this tariff structure, and have you  
38 considered other options?  
39  
40 MR CHICK: Rebecca, I'll take that one on. We are  
41 continuing with the same because we believe the structure  
42 does support lower income earners. By the very nature of  
43 its design, it's for consideration of low income earners,  
44 and the second tier is there as a bit of a signal or  
45 incentive for smarter water usage.  
46  
47 MR EDGERTON: Just a question about your costs or your

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1 proposed expenditure, which I don't think it was touched  
2 upon in your presentation. How do you propose to allocate  
3 Essential Energy's corporate costs to your water and  
4 wastewater business and what's included in these costs?

5  
6 MR SINCLAIR: I'll answer that one. In relation to the  
7 programs, there's three key elements: there is direct  
8 capital expenditure, there's direct operational expenditure  
9 and then there's overheads, and they are primarily  
10 administrative costs associated with the business.

11  
12 In terms of the allocation, we look at the drivers of  
13 the business and I think in terms of the capital program  
14 and the operating program, we will ensure that the nexus of  
15 the direct investment is aligned to those overhead costs.  
16 So in terms of the capital program versus the operating  
17 program, a percentage of those corporate overheads will be  
18 applied to both the direct investment on the capital side  
19 and then also on the operating side. That is how we have  
20 done it previously and I think in terms of the nexus, it  
21 provides an appropriate amount of allocation across the  
22 water business which is prudent and, more importantly,  
23 sound.

24  
25 MR EDGERTON: Just another question on cost allocation,  
26 then. How have you proposed that costs be allocated to the  
27 mines to determine proposed prices for these customers?

28  
29 MS LINDSAY: I'll take that one. We looked at the mines  
30 pricing and it was quite a challenge for us because we  
31 haven't had to price that sort of customer before,  
32 particularly in the water business. In the electricity  
33 business, we have plenty of experience with pricing large  
34 customers.

35  
36 So we have obtain that experience and applied it to  
37 the mines and we have looked at the mines and tried to  
38 understand if the mines weren't there, what would change  
39 and how would the costs of the business change? Using the  
40 building blocks that we've developed for the main proposal,  
41 we have taken a portion of that. So for the capital costs,  
42 we've used a percentage of water usage and we have also  
43 taken a proportion of operating costs to come up with the  
44 mines price, which will be shared between all the mines.

45  
46 MR EDGERTON: Just on the mines as well, can you also talk  
47 us through, I guess, the reasoning for your proposed price

1 structure for the mines. I understand --

2  
3 MS LINDSAY: The fixed versus variable component?

4  
5 MR EDGERTON: That's right.

6  
7 MS LINDSAY: If I just refer back to my previous comments  
8 of looking at how the costs of the business would change if  
9 the mines weren't there, they wouldn't change materially.  
10 There would be a slight reduction in operating costs. The  
11 costs of capital would not change. So from that  
12 perspective, the price is largely fixed because the costs  
13 are largely fixed, and that's the principle we have  
14 applied. So we have really tried to look at the costs of  
15 the business and how the mines contribute to that and tried  
16 to match them up as closely as we possibly can.

17  
18 MS BISHOP: One last question to Guy on the operating and  
19 capital expenditure, your last comment there. You said if  
20 some of the capital projects are deferred, there will be an  
21 increase in operating expenditure, and I'm just wondering  
22 what projects or activities would be undertaken on the  
23 operating side if the capital projects are deferred?

24  
25 MR CHICK: There is always work to be done on the water  
26 reticulation to absorb work in there. We have also got a  
27 maintenance program, maintenance system, that registers all  
28 the work that we need to do in our infrastructure and  
29 there's most certainly work always there that we can  
30 address, ongoing maintenance of the network, there's never  
31 a shortage of us doing operating work on the network.

32  
33 MR HUMPHREYS: I might just add one quick point there, if  
34 I may, that guy was alluding to before. If our capital  
35 program is down, the overheads that would normally be  
36 allocated to that capital program go back to the operating  
37 costs. So that is one we mentioned before, if the capital  
38 program is down, we do see an uplift in our operating  
39 costs.

40  
41 THE CHAIRMAN: Paul.

42  
43 MR PATERSON: Guy, could you tell me what are the risks  
44 involved in not doing the Wills Street sewerage plant  
45 upgrade work that you have spoken of?

46  
47 MR CHICK: There is obviously a risk of sewerage system

1 failure, in other words, if it was catastrophic and it  
2 stopped working, you would appreciate our sewerage system  
3 is just not there for people to use, so you could  
4 appreciate the ramifications of that. Secondly, by its  
5 very condition and age, now there's also environmental  
6 factors that are associated with its very operation now.  
7 You could appreciate in that failure, the environmental  
8 factors would be quite significant in that case. We really  
9 can't afford for it not to be.

10  
11 MR BASTIAN: Just on Wills Street, it was initially built  
12 in the late 1930s and it has been augmented and the last  
13 bit of major work that was done out there was in the 1980s.  
14 So it is very old, it's old technology. The current EPA  
15 standards require removal of the phosphorus and nitrogen  
16 and the process we have out there doesn't allow that, it's  
17 old trickling filter unit technologies. All the concrete  
18 is very deteriorated. We have picked up that some of the  
19 tanks out there are leaking and we've have been required by  
20 the EPA to address that situation straightaway.

21  
22 Just basically by the age of the plant, the  
23 technologies over time and the ability for it to perform to  
24 the EPA requirements of these days, this work needs to be  
25 done. We have investigated to see whether we can remediate  
26 the existing plant or whether it's cheaper and more  
27 efficient to build a new plant, and that's basically what  
28 we've been doing over the last few years: we have had some  
29 heavy consultants' investigations out there, we have gone  
30 through each specific concrete structure, each specific  
31 piece of mechanical and electrical plant and gone right  
32 through to the individual nuts and bolts and we figured out  
33 that it is more efficient to replace the plant and we're  
34 looking at doing that in the next regulatory period.

35  
36 MR EDGERTON: Just another question relating to your  
37 proposed capital expenditure program: how do you  
38 determine the priority of expenditure on projects?

39  
40 MR CHICK: Steve may help me here, too, but the main thing  
41 upfront is the risk that we constantly assess with our  
42 infrastructure. As I said, we have a maintenance program,  
43 a system, that actually records any escalation in  
44 maintenance. So there's a fair few signals we have, and  
45 also just professional on-the-ground knowledge, they're  
46 indicators as to what the risks are out there and what  
47 infrastructure needs the most attention. So that drives in

1 the first place. But like everything we do, though, it is  
2 assessed pretty thoroughly. In fact, anything over  
3 \$100,000 actually has to go through a significant business  
4 case, so that most certainly puts some rigour to our  
5 decision-making on the proposals we're putting up for any  
6 investment.

7  
8 MR BASTIAN: With all of our assets, every asset is  
9 individually identified and we work on the principle of  
10 preventative maintenance compared to breakdown maintenance.  
11 Just an example: with your own vehicle, you can choose to  
12 drive it until it breaks and then fix it or you can keep it  
13 maintained. So each individual pump, motor, valve, pipe,  
14 every bit of asset that we've got has its own specific  
15 identifier.

16  
17 We have a maintenance management system; we know the  
18 exact history of every part of every bit of our plant.  
19 Every bit of maintenance which is carried out is carried  
20 out on it. We stretch out the maintenance so that we  
21 maintain things at the most efficient point of maintenance.  
22 Like, we might have a specific pump and maintain it at 1000  
23 hours and then we'll push it out to 1200 hours and say go  
24 to 1400 hours and say, "Rightio, it needed to be maintained  
25 at 1200 hours."

26  
27 So we are maintaining things to the efficiency, but it  
28 gets to a point where you're maintaining something more  
29 than what it is actually worth, like with your own vehicle.  
30 If you're spending on it than what it's worth, then it is  
31 time to go out and replace your vehicle. So that is  
32 basically a layman's way of how we choose when an asset has  
33 reached the end of its use-by life, because we have a lot  
34 of these records and it's a very important part of our  
35 business to keep an eye on it.

36  
37 MR HUMPHREYS: I might add two comments to that, if you  
38 don't mind, just very quickly. The first one is that the  
39 capital governance procedures that Essential Water follows  
40 are consistent with Essential Energy. So any project over  
41 \$100,000 needs a full business case. Secondly, all  
42 feasible options need to be fully explored, so we don't  
43 consider one option, we consider all feasible options to  
44 compare those options and, where necessary, get independent  
45 reviews and benchmarking as well.

46  
47 THE CHAIRMAN: I think one aspect of Matt's question is

1 that if you couldn't do everything that you proposed, which  
2 ones are the most important? You have a number of very  
3 large projects. Which ones are the most important?

4  
5 MR BASTIAN: The ones which we are obliged to do are the  
6 dam safety projects. Everything, we feel, is important,  
7 but if anything had to be cut back, we would have to  
8 individually assess each one of the projects and make the  
9 decision at that time to see the amount of risk which we  
10 would need to choose to take.

11  
12 THE CHAIRMAN: Any other comments on that? Any other  
13 questions?

14  
15 MR EDGERTON: I guess just one more, if I may. Jumping  
16 back to the question of price structures, Guy, you  
17 mentioned before when talking about the two-tiered water  
18 usage charge that one of the arguments for that is, or the  
19 way I interpreted your response, it enables customers to  
20 have greater control over their bills and that obviously  
21 can be a benefit for low-income customers in particular.

22  
23 We have received several submission, in response to  
24 our issues paper, arguing that the current price structure  
25 provides a disincentive for people to water their gardens  
26 and keep their gardens green and that there are potential  
27 concerns associated with that, given the lead issue. Have  
28 you considered that in your proposal, and what is your  
29 response to those arguments?

30  
31 MR CHICK: Matthew, what we've got here is the figures are  
32 showing that people are consuming less than the tier one  
33 cap in any case, so we view that that's doing what it was  
34 designed to do, and that was to assist low-income earners.  
35 If we had evidence of it being well above that, you could  
36 argue we might have to review it, but at this stage the 400  
37 kilolitre tier one level appears to be working.

38  
39 MS LINDSAY: I might just add, the second tier - and I  
40 think the tariff has been in place for about 10 or 15  
41 years - but the second tier was originally designed to  
42 signal the costs of pumping additional water because once  
43 we get over a certain point, the opex does increase  
44 substantially through pumping costs. So that second tier  
45 is to provide a price signal to customers to signal that  
46 extra pumping cost.

47

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1 MR EDGERTON: And is it set at those levels to reflect  
2 those additional pumping costs?

3  
4 MS LINDSAY: It would have been back at the time. With  
5 inflation going forward, it should still be relatively in  
6 line with that.

7  
8 MR DRAPER: I think we understand the economics behind  
9 the inclining block tariff, but I think the question really  
10 related to the sort of special conditions that exist in  
11 Broken Hill in relation to management of that lead in the  
12 environment. Can you just talk a little bit more about  
13 that and about how you have taken that into account, in  
14 addition to the costs of the pumping at the margin.

15  
16 MS LINDSAY: In terms of the tariff structure - and I  
17 haven't been involved with the water business right from  
18 the beginning - but when that tariff was first put in place  
19 it was just a flat tier one with no additional pumping  
20 costs in summer. So back probably about between five and  
21 ten years ago, an additional block of tier one was added to  
22 allow people to water their lawns, particularly during  
23 summer periods, and one of the key arguments obviously is  
24 to keep the lead dust down.

25  
26 THE CHAIRMAN: Thanks very much, Natalie. I want to  
27 now throw it open to the floor. We've got 20 minutes or so.  
28 You will get another opportunity to ask questions after the  
29 next set of presentations. So if you can, if you can  
30 direct your questions basically to Essential Water.

31  
32 MR KENNEDY: Yes, I have two questions. I'm Tom Kennedy  
33 and I'm here representing, or one of the people  
34 representing, the Broken Hill Residents Association.

35  
36 My first question is to Guy, I assume the person to  
37 answer this. Earlier on, the presentation from the first  
38 IPART person was a 12.1 per cent reduction in real  
39 operational costs, even though operational costs remain the  
40 same. Guy Chick then said 10 per cent over four years,  
41 which I assume is 2.5 per cent each year for inflation.

42  
43 Considering the considerable capital expenditure over  
44 the four-year period, what amount of money which would  
45 usually be used for operational costs are being used to  
46 offset capital works? It's fine to say that you've had  
47 roughly a 10 per cent real reduction in operational costs,

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1 but when you're using those operational costs against  
2 capital works, there is actually no savings. As the other  
3 gentleman said, when capital works go over, the operational  
4 costs then increase, that's because the operational costs  
5 have to be offset against operational costs instead of  
6 capital works. So I ask you: what amount of operational  
7 costs have been offset against capital works?  
8

9 THE CHAIRMAN: Can I just confirm your name, please.

10  
11 MR KENNEDY: Tom Kennedy.

12  
13 MR CHICK: Tom, are you after a percentage?  
14

15 MR KENNEDY: No, I'm asking for a figure. It's a common  
16 accounting practice and that's why accountants make me  
17 chuckle when they want to give figures, it's a common  
18 accounting practice to use operational costs against  
19 capital works. We can have a man digging a hole here that  
20 can be charged for operational works, which costs \$100; if  
21 he goes over there and builds a pump, which is considered  
22 capital works, that \$100 doesn't go on operational costs,  
23 it goes on capital works.  
24

25 My question is: what is the exact figure that Country  
26 Energy is transferring operational costs on to capital  
27 works and trying to pull the wool over the eyes of IPART  
28 here today?  
29

30 MR CHICK: Tom, if the operational works - let's just say  
31 the capital works I described earlier, capital programs,  
32 we've got works that are on there - as I said, we are  
33 constantly reviewing anything by way of capital before we  
34 undertake it. So in other words, whilst we might have a  
35 commitment to be doing something, we won't go ahead with  
36 it until we have thoroughly reviewed it. If that works is  
37 deferred or what have you, yes, the guys will go across and  
38 it will be operational works, but it's clearly identified  
39 and clearly reported, as to whether it be operational or  
40 capital.  
41

42 MR KENNEDY: I think you're missing my point.  
43

44 MR HUMPHREYS: Tom, can I just have a chance of maybe  
45 answering that question. In our submission, we clearly  
46 state our entire capital program, that's listed in our  
47 submission and Guy has taken us through some of the major

1 projects. Also in our submission, we outline our entire  
2 maintenance program and operating costs. Now, that's our  
3 best estimate as at today at what that works program is  
4 going to be for the next four-year period. In that time,  
5 you may have some swings and roundabouts, but the point is  
6 if we do have swings and roundabouts, customers see no  
7 difference because that price path is set for customers  
8 based on that determination that is made during this --  
9

10 MR KENNEDY: I'll make the question a little easier, then.  
11

12 THE CHAIRMAN: Hang on, Tom. That's the answer to the  
13 first question.  
14

15 MR KENNEDY: Well, it's not an answer.  
16

17 THE CHAIRMAN: Sorry, Tom, that's the answer they have  
18 given to the first question. Do you have another question,  
19 because other people will want to ask questions as well?  
20

21 MR KENNEDY: I think the people want to know. This is a  
22 public hearing.  
23

24 THE CHAIRMAN: It's a public hearing but we need to have  
25 a situation where everybody gets a chance. Do you have  
26 another question now?  
27

28 MR KENNEDY: So we're being closed down.  
29

30 THE CHAIRMAN: No, you're not. Do you have a question?  
31

32 MR KENNEDY: All right, this an easier question, same  
33 question, similar thing: have employee costs reduced at  
34 Essential Water over the last four-year period?  
35

36 MR HUMPHREYS: No.  
37

38 THE CHAIRMAN: Okay, next question. You'll get another  
39 opportunity. You've had two questions.  
40

41 MR KENNEDY: It's the same question. That question was  
42 the same question that he answered.  
43

44 THE CHAIRMAN: Do you want to ask another question now?  
45

46 MR KENNEDY: Yes.  
47

1 THE CHAIRMAN: If so, go ahead and then please take a seat  
2 so somebody else can ask a question.

3  
4 MR KENNEDY: I'm confident this is going to be good for  
5 the community. People are using less water, which means  
6 charges have to increase, which was stated by Guy Chick,  
7 that as increasing water costs have gone up, people are  
8 using less water. The higher users are therefore  
9 subsidising the lower users, subsidising single lower  
10 users.

11  
12 The lady over there said that the two-tier system was  
13 introduced because of the increased pumping costs. It was  
14 introduced because it was a state requirement, it was  
15 introduced actually for the sole purpose of reducing water  
16 consumption, it was about rewarding people that used less  
17 and punishing people that used more. As for the 400  
18 kilolitre usage, that was negotiated at the time with  
19 Australian Inland and it was to offset partly the extra  
20 water that we used in summer.

21  
22 THE CHAIRMAN: Okay, thank you, Tom. Other questions?

23  
24 MR DERUM: My name is Oliver Derum and I'm from the  
25 Public Interest Advocacy Centre in Sydney. I have a couple of  
26 questions again for Essential Water, maybe I should just  
27 give them to you at once.

28  
29 THE CHAIRMAN: Yes.

30  
31 MR DERUM: Firstly, Gary Humphreys mentioned that going  
32 forward you see \$10 million losses continuing. I would be  
33 interested in knowing if that will just go on the books as  
34 debt or if it comes from Essential Energy more broadly or  
35 the New South Wales Government somehow and is therefore  
36 a de facto subsidy?

37  
38 Secondly, I was talking to people in the foyer before  
39 this and there are some very real health concerns in  
40 Broken Hill related to the mining and how that gets into  
41 the water, and I would just like to ask if Essential could  
42 explain a bit what they're doing in relation to those  
43 concerns, particularly if it's an area where you see  
44 expenditure going up in the future or going down?

45  
46 THE CHAIRMAN: Thank you, Oliver. Would you like to  
47 take those two?

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1  
2 MR HUMPHREYS: Yes, I'll take the first question. In  
3 relation to the \$10 million loss that I suggested, the  
4 Essential Water business is what is called a completely  
5 impaired asset, so any capital expenditure that we spend on  
6 the asset has to hit our profit and loss statement in that  
7 year. So that's why we see those significant losses, and  
8 that is being covered at this stage by Essential Energy.

9  
10 THE CHAIRMAN: The second one?

11  
12 MR BASTIAN: With the water quality issue and managing  
13 the water from the local environment, we have adopted the  
14 Australian Drinking Water Guidelines as the quality  
15 standards for the water that we deliver to the public. In  
16 those guidelines, there are both health and ascetic  
17 guidelines, and we are strictly policed by the NSW Health  
18 Department. They keep an eye on our water quality, we  
19 report to them regularly, we send samples over to them,  
20 they sample them independently all the time. So we are  
21 strictly monitored by the quality of the water that we  
22 deliver to the public.

23  
24 MS GOULD: My name is Robyn Gould, and I would like to ask  
25 Mr Chick: how do you get the soluble lead and heavy metals  
26 from our drinking water, how do you get it out? The only  
27 way that I know is through osmosis. Could you please tell  
28 me how you get the soluble components out?

29  
30 THE CHAIRMAN: Thanks, Robyn. Who is going to answer  
31 that one?

32  
33 MR BASTIAN: I'll answer that. There is a level, and it's  
34 a health level, for lead in the Australian Drinking Water  
35 Guidelines. Now, I can't remember the figure, what it is.  
36 We meet the level of the Australian Drinking Water  
37 Guidelines for all heavy metals. Now, you say how do we  
38 get it out? We do have a very rigorous process up at the  
39 water treatment plant of coagulation and flocculation.  
40 Fair enough, it doesn't take all the soluble particles out,  
41 but the amount of lead which is in the water is far below  
42 the health limits of the Australian Drinking Water  
43 Guidelines.

44  
45 THE CHAIRMAN: Do you want to follow up?

46  
47 MS GOULD: Yes. If I went and got a sample and had that

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1 done myself, you'd be happy with that? Would you be happy  
2 to let me go and get a sample and have it tested?  
3  
4 MR BASTIAN: You can get a sample out of any tap --  
5  
6 MS GOULD: Because the only way you can get soluble  
7 components out of the water is through osmosis.  
8  
9 MR BASTIAN: Yes, and you are quite welcome to take a  
10 sample out of any tap and take it --  
11  
12 MS GOULD: No, I want the reservoir, I'd ask for the  
13 reservoir.  
14  
15 MR BASTIAN: We take the water from the reservoir and we  
16 run it through the water treatment plant and it then goes  
17 into your taps. So if you want to take a sample of the  
18 water that you are going to drink, take it out of your tap  
19 and send it away to a NATA-accredited laboratory and I am a  
20 hundred percent confident that the level of lead would be  
21 under the Australian Drinking Water Guidelines.  
22  
23 MS GOULD: Are we speaking about other heavy metals? We  
24 have 29 heavy metals in our water.  
25  
26 MR BASTIAN: Yes.  
27  
28 MS GOULD: And a lot of those health concerns or risks are  
29 accumulative, they accumulate in the system over time, and  
30 it is those soluble components that we breathe in and get  
31 through our water that causes Broken Hill to have the  
32 highest rate of cancer in New South Wales.  
33  
34 MR BASTIAN: Yes.  
35  
36 MS GOULD: And autism with our children.  
37  
38 MR BASTIAN: Like I said, we are strictly regulated and  
39 monitored by the NSW Health Department for the water  
40 quality that we deliver, and it meets the Australian  
41 Drinking Water Guidelines.  
42  
43 THE CHAIRMAN: Just let Steve finish.  
44  
45 MS GOULD: Sorry, could I just ask this one question?  
46  
47 THE CHAIRMAN: One follow-up.

1  
2 MS GOULD: Are you prepared to give me or let me come in  
3 and see a copy of the original one that you had done in  
4 2012, I think it was, from the laboratory - not the one you  
5 tiddled up for the paper, the original copy that came back  
6 from the NATA-accredited laboratory before you tiddled it,  
7 because I can tell you it's not the same as mine?  
8  
9 THE CHAIRMAN: Okay, that's the question. Robyn, we're  
10 going to give someone else a question now. Steve, do you  
11 want to answer that question?  
12  
13 MR BASTIAN: Yes, you can look at any results that we've  
14 got.  
15  
16 MS GOULD: I will do that.  
17  
18 THE CHAIRMAN: Any other questions for Essential Energy?  
19  
20 MR ROGERS: Denis Rogers, customer. I would just like  
21 someone to explain a little bit more about the  
22 ever-increasing environmental costs and how much it is  
23 going to cost on our bill. That's all, thank you.  
24  
25 THE CHAIRMAN: Thank you, Denis. Would somebody like  
26 to have a go at that?  
27  
28 MR CHICK: Denis, we haven't got a percentage on  
29 environmental, but we have made mention of our regulatory  
30 compliance, and that was to do with dam safety and what  
31 have you. As far as the actual environmental costs, no, we  
32 haven't got a breakdown of that.  
33  
34 THE CHAIRMAN: Are you referring to something that is  
35 itemised on your bill, Denis?  
36  
37 MR ROGERS: No, it just came up earlier on. The wording  
38 was the "ever-increasing environmental standards," and I  
39 just wanted to know what part that plays in our bill.  
40  
41 MR HUMPHREYS: Chairman, we're going to have to take  
42 that one on notice because it might be our buildings, our fleet,  
43 ongoing EPA requirements. So we might need to take that on  
44 notice to get specific details on what the question is  
45 after.  
46  
47 THE CHAIRMAN: I think the question is that because of the

1 need to comply with the environmental standards, that is  
2 increasing costs and hence feeding through to the price of  
3 water.  
4  
5 MR HUMPHREYS: Yes, we just don't have an exact figure  
6 here today to let you know exactly what that is.  
7  
8 THE CHAIRMAN: Would you send the response to that and  
9 we can post it on our website?  
10  
11 MR HUMPHREYS: We're happy to look at that, yes.  
12  
13 MR EDWARDS: I'm Roger Edwards. I actually worked with  
14 the Broken Hill Water Board for some 25 years. Just a  
15 comment on the pumping costs that were mentioned earlier.  
16 It was stated that that was the reason for the very high  
17 cost of the second tier price. Now, in 1996, the marginal  
18 cost of pumping and treatment, and this was at full  
19 capacity from the river, with all pumping stations, was  
20 30 cents per kilolitre. If the power costs have doubled,  
21 that's only 60 cents; if they have tripled, that's  
22 90 cents. There seems to be a very big gap between that  
23 and the \$2.80 per kilolitre.  
24  
25 THE CHAIRMAN: Any comment on that?  
26  
27 MS LINDSAY: Just to clarify, the second tier is to  
28 signal the cost of increased pumping, it is not to  
29 completely match the costs of increased pumping. The other  
30 thing, too, is pumping cost is one thing, but the treatment  
31 of the water is also another, in that it is dirtier than  
32 water taken directly from in town, it requires more  
33 treatment. Stephen and Guy probably could comment more  
34 on this than I can, but we're not trying to say that that  
35 second tier exactly matches the pumping costs, it's a price  
36 signal to signal the costs of additional pumping.  
37  
38 THE CHAIRMAN: Any other comments? Two more  
39 questions and then we'll move on to the next session.  
40  
41 MS LANNSTROM: G'day, Karrie Lannstrom, pensioner and  
42 water consumer. I have a question to make, or a statement.  
43 You mentioned earlier on that you're not making any profits  
44 from water. Excuse me, but I thought water was an  
45 essential service to the people in a just society. How can  
46 you get off with saying that your aim is to make profit?  
47 Your aim is to give us clean water.

1  
2 THE CHAIRMAN: Thanks, Karrie. Robyn.  
3  
4 MS GOULD: To Mr Chick again: could you tell me, I know  
5 it's only a minute proportion but it is accumulative, so  
6 over many years it accumulates in our body, why have we  
7 hexavalent chromium in our water?  
8  
9 THE CHAIRMAN: Sorry, Robyn?  
10  
11 MS GOULD: Hexavalent chromium.  
12  
13 MR BASTIAN: Look, I'll answer this generally. I'll go  
14 back to the Australian Drinking Water Guidelines again.  
15  
16 MS GOULD: Yes, I --  
17  
18 THE CHAIRMAN: Just a second, Robyn, let him answer.  
19  
20 MR BASTIAN: There are health and ascetic guidelines.  
21 Now, the health limits, I'll explain to you how the health  
22 limits are reached. A specific level of milligrams per  
23 litre is chosen. That level has been chosen and the way  
24 they do it, they say if a specific person drinks two litres  
25 of that water every day of their life for 50 years, at the  
26 end of that time there is a one in 10,000 chance that their  
27 health will be impaired.  
28  
29 MS GOULD: I understand that.  
30  
31 THE CHAIRMAN: That's the answer to your question.  
32  
33 MS GOULD: But your Australian Drinking Water Guidelines  
34 are telling me that over an extended period of time, many  
35 years, even small amounts can cause cancer.  
36  
37 MR BASTIAN: They are saying that if you drink two litres  
38 of water above that health limit every day of your life for  
39 50 years, at the end of that time, there is a one in 10,000  
40 chance that your health will be impaired.  
41  
42 MS GOULD: Would you show that to me when I come in,  
43 because I'll show you the one I've got here.  
44  
45 MR BASTIAN: That is straight off the Australian drinking  
46 Water Guidelines.  
47



1 MS GOULD: Well, they don't know everything, they don't  
2 know what (indistinct) is.

3  
4 THE CHAIRMAN: That can be made available to you, Robyn.  
5 Okay, last question before we move to the next session.

6  
7 MS SOFIELD: My name is Marvis Sofield. I retired 12  
8 months ago and my question is about this two-tiered system  
9 which is supposed to support low-income earners. Now that  
10 I'm on a pension, this year, for this quarter, I used  
11 53 per cent less water than I did the same time last year.  
12 That meant I sacrificed my lawn and my garden. I'm paying  
13 exactly, to within a dollar, the same amount as I paid for  
14 the extra water I used last year.

15  
16 So no matter what I do, the only thing I can do now is  
17 stop washing my clothes and my body to save water. It  
18 doesn't seem to matter what I do, the price goes up, and  
19 it's an impost on me. So I think that the argument that  
20 the two-tier supports low-income earners is a bit of a  
21 joke.

22  
23 THE CHAIRMAN: Thank you for that. Let's move on to the  
24 next session now, where we're going to have up to a  
25 five-minute presentation from each of the stakeholders who  
26 put in a submission. The first stakeholder is Perilya and  
27 I think it's David Hume. Then the next presenter will be  
28 Broken Hill Council.

29  
30 PERILYA

31  
32 MR HUME: My name is David Hume, I'm the general manager  
33 of the Perilya Broken Hill mining operation. Perilya has  
34 chosen to make a submission to the inquiry on the basis of  
35 the pricing structure that is proposed for the mines  
36 cost-reflective water supply structure from June of next  
37 year. I should state upfront in relation to the terms of  
38 reference, Perilya has no issue with the quality or  
39 standard and consistency of the water supply and sewerage  
40 services provided to our business; they more than  
41 adequately meet our business needs.

42  
43 As I stated, the reason we have made a submission is  
44 we are concerned about the pricing structure and the  
45 pricing levels that have been proposed under the Essential  
46 Energy draft cost-reflective structure. On that, there are  
47 three aspects that we particularly are concerned about. We

1 are concerned about the level at which the scheme or the  
2 proposed pricing has been structured. We believe the  
3 levels reflect historically high water consumption that  
4 occurred last year, and there are a number of reasons for  
5 that.

6  
7 But because of particularly high water consumption,  
8 last year's water bills for our business were historically  
9 high. I don't have information for the other mines  
10 operating under the scheme, but I believe that the combined  
11 consumption for the mines in Broken Hill was a particularly  
12 high figure for recent history. So I am concerned that  
13 Essential Water has used those very high consumption levels  
14 as a benchmark for establishing prices.

15  
16 The second aspect of the pricing that concerns us is  
17 the very high fixed charge component that is proposed for  
18 the mines. Under the current mine supply agreement, there  
19 is an effective or de facto fixed charge based on a minimum  
20 consumption level. The proposed new pricing structure  
21 would increase the level of the fixed component of total  
22 charges to, by my understanding, about 84 per cent, the  
23 total charges would be a fixed figure, and that quite  
24 simply means that the opportunity for us to cut consumption  
25 and reduce our costs is denied to our business.

26  
27 That is something that is very important to us, which  
28 I will come back to, but we are actively seeking ways to  
29 reduce consumption. We think that makes good business  
30 sense, we also think it is an environmental imperative to  
31 reduce our water consumption, and the proposal would deny  
32 us any financial benefit or pay-back on expenditure on  
33 reducing our consumption through improved efficiency.

34  
35 Still on the issue of the fixed cost charge, we  
36 understand that the proposal is that the pricing scheme  
37 would apportion fixed costs for all of the mines operating  
38 under the scheme, currently two, it would apportion fixed  
39 costs between the mines based on relative consumption. We  
40 are concerned about that because quite simply that means if  
41 one mine were to curtail operations or cease operations,  
42 the other mine would, as I understand it, pick up the  
43 balance of the fixed costs, which could be a significant  
44 increase were that to happen, and that's not beyond the  
45 realms of possibility.

46  
47 The last issue for us is simply capacity to pay the

1 levels that are proposed. I'm not going to dwell very  
2 heavily on the capacity to pay issue because I think that  
3 is not unique to the mines in terms of Essential Water's  
4 Broken Hill customers. That's a real issue.  
5  
6 In terms of Perilya specifically, if we were to see  
7 prices locked in at the proposed levels, that would lock in  
8 historically high costs to our business. It's on the  
9 record that Perilya is trading in very difficult economic  
10 circumstances. Our public reporting this year declares  
11 that we have been operating at a considerable loss, and the  
12 survival of our business depends, in very large part, on  
13 reducing the cost inputs in our business and we're doing  
14 that through every means available to us, trying to  
15 negotiate economic costs for the services and goods that we  
16 use in our business. Thank you very much.  
17  
18 THE CHAIRMAN: Thank you very much, David. Broken  
19 Hill Council. Then the next one is Broken Hill Chamber of  
20 Commerce.  
21  
22 BROKEN HILL CITY COUNCIL  
23  
24 MR DREW: My name is Tim Drew, I'm the Chief Financial  
25 Officer at Broken Hill City Council, here today  
26 representing the general manager, Therese Manns. Thanks  
27 for the opportunity today to address you. You've obviously  
28 got Council's written submission. I've only got a short  
29 amount of time and I've got a few key points to make, so  
30 obviously I won't be reading the submission.  
31  
32 Today's hearing is very important, obviously, from a  
33 public accountability point of view. The community of  
34 Broken Hill has, quite rightly, been very diligent in  
35 holding the Broken Hill City Council to account when it is  
36 setting its annual budget and rates, and the reason for  
37 that is obviously quite clear. As the people who fund  
38 Broken Hill City Council and, in this case, the services  
39 provided by Essential Water, the people of Broken Hill  
40 basically want to know two things: are they going to be  
41 provided with a reasonable level of service, and is it  
42 going to be provided at a reasonable price to them?  
43  
44 So those principles apply equally to the topic we are  
45 discussing today, and everyone is obviously well aware that  
46 Council has its own challenges in relation to its financial  
47 situation, managing its budget, improving efficiency,

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1 driving down costs and keeping rates reasonable for the  
2 ratepayers of Broken Hill. The same deal applies for  
3 Essential Water.  
4  
5 The reduction in operating costs proposed by  
6 Essential Water is obviously quite welcome by Council, as  
7 it has a direct impact on the prices set for its services  
8 provided. The increasing capital expenditure, however, is  
9 something that perhaps needs further scrutiny. To go from  
10 a level of about \$5.4 million in the current financial year  
11 to \$14.2 million in 2014-15, I believe, needs to be looked  
12 at a bit more thoroughly. To the extent that capital  
13 expenditure is going to drive any price increases of 5.9  
14 per cent plus 2.5 per cent for CPI, the question must be  
15 asked: is the capital expenditure having a big impact on  
16 those increases and the prices that the community will be  
17 paying? So the Tribunal can probably have a greater look  
18 at the extent of works proposed and required as well as the  
19 timing of those works - is it necessary for all the  
20 proposed works to be undertaken in the next four years?  
21  
22 More specifically, the impact of Essential Water's  
23 proposed price increases on council, I think, have been  
24 covered in the media recently. Everyone knows that Local  
25 Government in New South Wales is subject to a rate peg  
26 increase, beyond which it cannot increase the cost of  
27 providing services to its ratepayers. This year, the rate  
28 pegged for Broken Hill City Council was 3.4 per cent, and  
29 we've had to work with that and try and frame a budget  
30 around that and make ends meet. As I mentioned before, we  
31 have obviously still got work to do to improve how we  
32 manage that.  
33  
34 The impact on Broken Hill City Council of water costs  
35 in recent times, we've seen it go from \$405,000 in 2010-11  
36 to about \$776,000 this financial year, equating to a 92 per  
37 cent increase over four years. Now, I'm not exactly sure  
38 to what extent that increase is based on consumption and  
39 price increases, but obviously in the last couple of years,  
40 prices haven't gone up, so it may well be consumption  
41 based.  
42  
43 THE CHAIRMAN: Can you just wrap up, please.  
44  
45 MR DREW: Yes, sure. Based on Essential Water's  
46 proposal, council can expect to see its water costs go up  
47 to over a million dollars by the end of the forecast

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1 period, and we can't recover any increase above 3.4  
2 per cent, as I said, with the rate peg.  
3  
4 That will have an impact on the city amenity. Council  
5 spends about \$2 million on parks and gardens and sporting  
6 facilities, that is direct operational costs excluding  
7 depreciation and overheads. More importantly, the price  
8 increases generally for the community, it's been mentioned  
9 that there are questions as to the ability of the community  
10 to pay. 3000 of the 10,000 ratepayers in the city receive  
11 some sort of pensioner concession, and obviously council  
12 would be concerned that this increase will be unaffordable  
13 to the community. So they're a few key points that need to  
14 be made.

15  
16 THE CHAIRMAN: Thank you very much. The next one is  
17 Broken Hill Chamber of Commerce, and after that will be  
18 PIAC.

19  
20 BROKEN HILL CHAMBER OF COMMERCE

21  
22 MS BRANSDON: Hi, my name is Anne Bransdon and I am the  
23 executive officer with the Broken Hill Chamber of Commerce.  
24 This is about the 120th year the Chamber of Commerce has  
25 come to the table to talk about water and infrastructure,  
26 and I'm probably the first woman.

27  
28 Most people don't realise, but the Broken Hill Chamber  
29 of Commerce is very different to other chambers of commerce  
30 around the state. Most of our members are based in  
31 industry, manufacturing and construction with a huge  
32 representative of trades. So our members understand that  
33 investment in infrastructure is absolutely crucial to the  
34 ongoing development of providing good services to  
35 customers.

36  
37 But they're also telling us in feedback, when we spoke  
38 to them about this inquiry, that they're going to find it  
39 very difficult to absorb the cost of this new  
40 infrastructure into their water bill. So in the past,  
41 we've had the subsidy and we don't believe that we can have  
42 this conversation without discussing that subsidy. Last  
43 year, it was to the tune of 1.7 million, which is Essential  
44 Energy absorbed because the actual agreement with the New  
45 South Wales Government had run out. For the Chamber of  
46 Commerce, we recognise that that was corporate goodwill.

47

1 What our members are saying to us is that if the water  
2 rates increase to the level that is suggested, we are going  
3 to see a shrinkage in our regional economy and that any  
4 significant changes to input costs will affect their  
5 financial performance and reduce the competitiveness of  
6 business and industry in Far West New South Wales.

7  
8 This is especially the case where water represents a  
9 significant input cost and it doesn't even factor in other  
10 costs pressures, which businesses are currently facing in  
11 the current economic climate. We are hearing that this  
12 small change could have a disproportionate impact on the  
13 business in our community. So this year in this community,  
14 we have already seen a number of our businesses downsize  
15 their workforce because of diminishing profits and  
16 increasing costs, and this has led to they are reducing the  
17 number of their employees, they're reducing the capacity to  
18 maintain and win contracts, it has reduced the opportunity  
19 for them to provide apprenticeships and traineeships.

20  
21 What this means is that it will inevitably reduce the  
22 level of disposable income in this community and the capacity  
23 of the rest of the community to grow, leading to urban  
24 drift, and guess where they go? To the main towns and  
25 cities, which puts more pressure on the infrastructure in  
26 those areas.

27  
28 So in taking the thoughts and arguments of today's  
29 discussions from our community, our members would like to  
30 say this: without the subsidy, it is going to force  
31 Essential Water to adopt the pricing regime that will put  
32 their consumers out of business. That does nobody any good  
33 in New South Wales, or Far West New South Wales. By  
34 putting businesses out of business in Far West  
35 New South Wales, we are unable to contribute to the  
36 economic success of this state, and the discussion around  
37 the subsidy must be one of the highest priorities when  
38 discussing how this water pricing regime is going to be  
39 determined. Thank you very much.

40  
41 THE CHAIRMAN: Next, we have the Public Interest  
42 Advocacy Centre and after that, the Broken Hill Residents  
43 Association.

44  
45 PUBLIC INTEREST ADVOCACY CENTRE (PIAC)

46  
47 MR DERUM: Good morning, my name is Oliver Derum and I

1 work at the Public Interest Advocacy Centre in Sydney in  
2 the Energy and Water Consumers Advocacy Program. In the  
3 interests of time, I'm going to focus on a couple of issues  
4 from the presentation.

5  
6 Firstly, the issue we were just hearing about, the New  
7 South Wales Government subsidy, we heard from Gary  
8 Humphreys earlier, and it is in Essential's submission,  
9 that it represents about 35 to 40 per cent of revenue that  
10 was provided by the New South Wales Treasury over recent  
11 years, and that the subsidy has been discontinued. PIAC  
12 thinks, and we have heard a lot about the unique challenges  
13 in this area related to water, and we think that the New  
14 South Wales Government subsidy represents an appropriate  
15 acknowledgement of that and the fact that people out here  
16 do need to use water for health reasons.

17  
18 If it could be comprehensively to everyone's agreement  
19 shown that there is a negative health impact from the heavy  
20 metals out here, we think the subsidy and any health  
21 benefits that using the water could provide would represent  
22 a long-term investment on the part of the government  
23 because ultimately the costs of treating people in  
24 hospitals would be reduced.

25  
26 I am also going to talk about a couple of customer  
27 assistance measures that Essential Water has and the  
28 improvements that we would like to see made to those.  
29 Firstly, the pensioner rebate of \$87.50 a year for each of  
30 the water and sewerage has not increased since at least  
31 2010, over which time water prices have increased quite a  
32 bit. I note that in their submission, Essential Water said  
33 that there is a strong case for increasing and/or altering  
34 the way that the rebate is calculated to ensure it retains  
35 its values as prices increase.

36  
37 PIAC supports this call and further argues that the  
38 New South Wales Government should increase the rebate to a  
39 level that restores it in relation to what water prices  
40 were on 1 July 2010. PIAC submits that given the small  
41 customer base that Essential Water has, this increase would  
42 not represent a significant imposition.

43  
44 I might just skip over that, just to say that I and  
45 people in my office didn't find it super easy to find  
46 information about customer assistance on the  
47 Essential Water website, and that's something you might

1 want to look at.

2  
3 An emergency assistance program is perhaps an  
4 aspirational customer assistance option for Essential Water  
5 to look at. It's a scheme that works like the Energy  
6 Accounts Payment Assistance Scheme in electricity and it  
7 would mean that local welfare organisations could assess  
8 customers for being in need of short-term bill relief due  
9 to sudden financial hardship.

10  
11 A good feature of such a scheme would be that it could  
12 provide assistance to renters, whereas it's only home  
13 earners who get the pensioner rebates. I would also note  
14 that Hunter Water, as part of its recent price  
15 determination, indicated that its scheme costs customers  
16 only about 14 cents per bill each. While Hunter Water is  
17 bigger than Essential Water and that may mean the costs are  
18 higher out here, we still think that the significant  
19 assistance to low-income and vulnerable consumers that such  
20 a scheme would provide would make it a worthwhile  
21 initiative.

22  
23 Finally, I would just like to mention the issue of  
24 engaging with residential customers. The hierarchy of  
25 Essential Energy would know a lot about this because there  
26 are now requirements in relation to energy, but I have to  
27 say I come to a lot of these things and there's normally  
28 one or two residents and the fact that there's so many of  
29 you here today goes to show how much this issue concerns  
30 people out here. I think, in light of that, PIAC would  
31 really like to see a more obvious representative of  
32 residential consumers in that capacity alone on the  
33 Essential Water Customer Council.

34  
35 THE ACTING CHAIRMAN: Thank you very much, Oliver.  
36 Broken Hill Residents Association, and then after that Roger  
37 Edwards.

38  
39 BROKEN HILL RESIDENTS ASSOCIATION

40  
41 MR KENNEDY: Firstly, I appreciate the opportunity to put  
42 the views of the Broken Hill Residents Association forward  
43 here today. May it be noted that the Broken Hill Residents  
44 Association is a very newly-formed association representing  
45 a wide cross-section of the Broken Hill community. We  
46 currently have 60 members, and growing.

47

1 I must admit, I do not have much confidence in IPART  
2 here today. Mr Cox, the former IPART CEO, in 2009 said  
3 that IPART had found scope for Country Energy to reduce its  
4 operating costs over three years by 12 per cent. It was  
5 mentioned earlier by Essential Energy that 12.1 per cent  
6 had been saved over that time. This is nothing more than  
7 creative accounting. Employee costs are used with capital  
8 works, are charged under the capital works budget and not  
9 included in the operational costs. This was evident when  
10 Guy Chick mentioned capex, which is an accounting practice.  
11 These savings have not occurred and Essential Water has  
12 made no attempt to deliver a different model than was  
13 delivered four years ago to IPART, virtually asking for the  
14 exact same percentage increases they were asking for in  
15 2009.

16  
17 There is opportunity for Essential Water to increase  
18 income by encouraging higher water usage. This can be done  
19 by having a set water allowance of, eg, 200 kilolitres of  
20 water within the fixed charges, as was done prior to 2004.  
21 Broken Hill is unique, with gardens dying in as little as  
22 four days when unwatered. This will benefit the  
23 Broken Hill community in a number of ways. The city will  
24 be greener, reducing lead levels, people will be more  
25 inclined to re-establish greening of their verges, which  
26 will reduce the costs of the Broken Hill City Council  
27 maintaining footpaths.

28  
29 The increased water charges are reducing consumption  
30 and therefore reducing Essential Water's income. This will  
31 happen with the new proposals. So every time we have a  
32 price increase, we use less water, which requires  
33 Essential Water to have an additional price increase to  
34 cover operational costs and capital works.

35  
36 There were significant increases in 2004 which were  
37 applied by Australian Inland after gaining approval by the  
38 Minister, the price proposal by AI, which resulted in  
39 approximately a 60 per cent increase in bills and was to  
40 cover the loss of the State Government rebate and capital  
41 works infrastructure renewal. The subsidy remained; the  
42 price increases went ahead. It's the same thing Country  
43 Water are asking for at the moment.

44  
45 The then CEO, Joe Flynn, said he was proud every time  
46 he saw a dead or dying garden, as this let him know his  
47 water conservation measures were working. The increases in

1 2004 caused many to give up keeping their verges grassed.  
2 The increase in 2009 has caused many more to reduce their  
3 usage and dig up gardens. Any increases above CPI will  
4 result in many more removing gardens - what gardens they  
5 have left.

6  
7 It is clear to all who live in Broken Hill that water  
8 price increases have a significant effect on the greening  
9 of the city and was very evident to the former manager, Joe  
10 Flynn, who was only in the city for a few years and saw for  
11 himself the dead and dying gardens that were caused by his  
12 price structure. Any increase above CPI will result in  
13 more exposed lead contaminated soil and an increased risk  
14 of lead poisoning, which will be caused directly by the  
15 potential decision of those in charge of IPART and could  
16 leave the State Government open to litigation.

17  
18 Essential Water profiting from infrastructure renewal  
19 is no benefit to the city and will not ensure funds being  
20 kept for future asset renewal. The only advantages are  
21 revenue for the State Government, increased operational  
22 costs, wastages, or a viable asset to be sold to a private  
23 company.

24  
25 IPART employs consultants to investigate the current  
26 application, ignoring previous applications or what was  
27 said and done historically. Since 2004, we have  
28 experienced a 200 per cent increase in water charges.  
29 Interestingly, the first Essential Energy speaker used the  
30 average water bill across the state, with Broken Hill  
31 comparable slightly higher than the average before the 2014  
32 increases are added. IPART need to take into account the  
33 average income in Broken Hill, which is close to half the  
34 state average.

35  
36 Guy Chick, on ABC Radio yesterday, says we should behave  
37 like gentlemen here today, as he increases water prices to a  
38 point that will impoverish many and turn our oasis in the  
39 desert back to a desert. I implore IPART not to let this  
40 happen.

41  
42 THE CHAIRMAN: Thank you, Tom. Roger Edwards.

43  
44 MR ROGER EDWARDS

45  
46 MR EDWARDS: My name is Roger Edwards. I've lived in  
47 Broken Hill all my life and my work experience includes some

1 25 years with the Broken Hill Water Board, finishing in  
2 1996. In support of my submission to the Tribunal, I would  
3 like today to make the following points.  
4  
5 I am prepared to accept that some increase above the  
6 CPI is probably required with the pricing, although I have  
7 no way of knowing what the efficient costs of the operation  
8 are. There are very real questions to be asked about the  
9 capacity of many residents to pay and go on paying  
10 increases above the CPI for everything. We are probably  
11 now the poorest community of any size in the state. In the  
12 future, we can expect to see further withdrawal of  
13 government services, mines closing, population declining,  
14 and the capacity to pay reduced still further.  
15  
16 Now is the time, I think, to examine closely the  
17 policy and financial framework within which Essential  
18 Energy is required to operate. The operation will need to  
19 be prepared for life after the mines, and I believe it is  
20 not appropriate to simply transfer any additional costs to  
21 the town, and there needs to be a focus on costs  
22 minimisation.  
23  
24 The magnitude and structure of water prices have  
25 already had a serious detrimental effect on residents.  
26 Gardens and lawns have been removed, in many cases  
27 replaced with bare dirt containing lead-laden dust. The lead  
28 problem is well known and acknowledged and then forgotten.  
29 The best way to combat the problem is to have gardens and  
30 some lawn. We are constantly told that lawns are bad, they  
31 must be removed and replaced with paving bricks.  
32  
33 Now, have you ever tried to sit out of an evening in  
34 the centre of a patch of paving bricks after a 40-degree  
35 day? People have been driven indoors, children do not play  
36 in the open. Houses themselves are hotter because of their  
37 hot surroundings. As well as the loss of amenity, not  
38 being able to afford gardens, I believe, has a detrimental  
39 effect on the health and wellbeing of the population.  
40 I think a lot of good would be done by getting rid entirely  
41 of this second tier price. It's done its job. The first  
42 tier price is now so high that it alone would discourage  
43 waste.  
44  
45 The water operation, of course, is of necessity very  
46 extensive and even efficiently run, expensive to operate.  
47 So I believe that some government support is necessary as a

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1 community service obligation, and this will be even more  
2 essential in the future.  
3  
4 I would like to briefly mention a point to do with the  
5 mining company pricing. Although the pricing structure is  
6 largely a secret, I don't know what justification there  
7 could be for that. If the mines are to pay more than the  
8 town, then I think we should know; and if the mines are to  
9 pay less than the town, that we should know that, too. The  
10 one thing that I note in the proposal was that costs  
11 associated with 78 per cent of the Menindee pipeline were  
12 to be excluded from consideration in determining water  
13 prices to the current mines, on the basis that the mines  
14 had paid for 78 per cent of the scheme. Now, this needs  
15 some explanation.  
16  
17 There really isn't time to go into it in depth, but  
18 there was an arrangement between the Water Board, the mines  
19 and the Government for funding the deficiency in the Water  
20 Fund following the commencement of the construction of this  
21 pipeline scheme. The mines also paid very low charges for  
22 water, which were fixed by the act. This is detailed in  
23 the appropriate acts of parliament and the board's annual  
24 reports, so it's a public matter.  
25  
26 The pipeline scheme, which was constructed over the  
27 period 1946 to 1956, was funded by loans. These loans,  
28 which were principal and interest loans, would have been  
29 extinguished many years ago. Even the later loans for  
30 plant replacement and provision of booster pumping stations  
31 should have been paid off many years ago. It was the  
32 policy at the time, because of the heavy financial  
33 involvement of the mines, that such loans be for a term of  
34 seven years. While the mines at the time contributed to  
35 the scheme through the deficit funding arrangement, those  
36 companies have long since gone and the current companies  
37 are relatively late players. I doubt if the current  
38 companies actually have contributed anything to the capital  
39 cost of the scheme.  
40  
41 If this proposal is accepted, the current mines would  
42 benefit from payments made many years ago by others. On  
43 the basis of the information available, I can see no  
44 justification whatever for this proposal. Also, if this  
45 proposal were to proceed, then I believe the town customers  
46 could rightly expect to have similar concessions in respect  
47 of assets they have paid for. This would be particularly

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1 the case in the sewerage assets, which were funded by loans  
2 and paid for by the town customers, with virtually no  
3 contribution from the mines. The mines only paid \$6400 per  
4 year between them for sewerage.

5  
6 Briefly, on the subject of assets, premature asset  
7 renewal and so-called gold-plating of assets as well as  
8 depreciation and rate of return on assets has a major  
9 impact on costs. Generally, utilities have moved from  
10 organisations providing a service at least cost to a  
11 commercial business whose primary concern is generating a  
12 return on investment. There could, therefore, be a motive  
13 for capital investment which is not necessary. There needs  
14 to be some means of close oversight.

15  
16 I don't believe the real rate of return on capital  
17 expenditure for water utility assets or a dividend to the  
18 shareholder, which is usually the government, is  
19 appropriate, particularly in the case of Broken Hill, where  
20 costs are high. It just adds further to the costs. Many  
21 assets have been paid for by the people, not the  
22 government, and any return on capital should return to the  
23 people. Thank you.

24  
25 THE CHAIRMAN: Thank you very much. Roger. We now have  
26 questions from the floor - sorry, any questions from IPART?

27  
28 GENERAL QUESTIONS AND COMMENTS FROM THE FLOOR  
29

30 MR EDGERTON: Yes, I have some questions for some of the  
31 speakers, if that's okay, Mr Chairman.

32  
33 THE CHAIRMAN: Yes, go ahead.

34  
35 MR EDGERTON: First of all, with Perilya, I noticed,  
36 David, you mentioned you are opposed to the price structure  
37 that Essential Energy is proposing, in particular the large  
38 fixed cost component of their prices. We heard from  
39 Essential Energy, though, that that reflects their cost  
40 structure in that regardless of how much water they supply  
41 you, they incur large fixed costs. Given that, what do you  
42 think a fair and reasonable price structure is for the  
43 prices to the mines?

44  
45 MR HUME: Yes, that is correct, we are concerned about  
46 moving to a price structure where essentially we would have  
47 no opportunity to reduce costs through reducing consumption

1 of water. I did also hear a comment that Essential Energy  
2 believes that if the mines weren't there, if the mines  
3 weren't operating, the cost of running their network  
4 wouldn't change much. So that does imply there are high  
5 fixed costs in the business.

6  
7 But we do believe that a commercial pricing structure  
8 that has an equitable balance between fixed costs and  
9 variable costs and incentivises water efficiency is  
10 appropriate for a large-scale industrial consumer.

11  
12 MR EDGERTON: You also mentioned that you had some  
13 concerns with how Essential Energy had proposed to allocate  
14 costs to the mines, I think in particular the use of recent  
15 water consumption figures to allocate operating costs.  
16 Again, what do you think a fair and reasonable approach to  
17 allocating costs to the mines is?

18  
19 MR HUME: The issue I raised was that the pricing  
20 structure appears to have been benchmarked against 2012  
21 water consumption, in which there were two mines operating  
22 under the mines supply agreement. Turning the very high  
23 costs that were incurred in 2012, because of that high  
24 consumption, into essentially a fixed cost to be  
25 apportioned between the two mines, we feel, puts both an  
26 unreasonable ongoing burden on the mines as well as  
27 introducing risk, should one or other of the mines cease to  
28 operate because of economic circumstances.

29  
30 MS LINDSAY: We have actually used two years of  
31 consumption, not one. So although you did have that one  
32 high year, we did take it over two, which should hopefully  
33 lessen the impact of a high year combined with a low year.

34  
35 MR EDGERTON: Just another question. It's probably a  
36 standard question that I could ask of the Chamber of  
37 Commerce, the Council and also the Broken Hill Residents  
38 Association. The supply of safe and reliable water is also  
39 obviously very important to business, the Council and the  
40 community. Given that, what do you think Essential Energy  
41 can do to ensure a safe and reliable supply of water while  
42 also keeping prices at a reasonable level, given the  
43 concerns we've heard from Essential Energy about the state  
44 of some of their assets? What are your proposals, what can  
45 Essential Energy do?

46  
47 MR DREW: It's a bit difficult for me to comment; I

1 haven't studied the proposal in detail. Probably just as  
2 an off-the-cuff comment, I would suggest that due  
3 consideration really needs to be given to having an  
4 infrastructure network that is going to match the future  
5 needs of the community, as opposed to creating or  
6 augmenting a network that has provided for the past needs.

7  
8 The future needs of the community may well be very  
9 different. Whether or not the mines being around has a big  
10 impact on the network, I don't really know, but we have  
11 heard it won't necessarily. The state of the network into  
12 the future, the amount of investment into it needs to be  
13 reflective of what the community needs are going to be in  
14 the future, not what they have been in the past, and  
15 Council certainly wouldn't want that gold-plating of assets  
16 to be an influencing factor on the increases.

17  
18 THE CHAIRMAN: Anne or Tom, Chamber of Commerce or  
19 Residents?

20  
21 MS BRANSDON: The Chamber of Commerce certainly, as I  
22 outlined previously, believes that every company that works  
23 in our region needs to look very carefully at its  
24 infrastructure so that it can provide the best products and  
25 services to its customers.

26  
27 The discussion today, from the Chamber's perspective,  
28 we would clearly like to see a prioritisation of those  
29 projects - I don't think that was clearly articulated today  
30 to us as a group sitting here - and if that prioritisation  
31 could take some of those projects out across a further  
32 timeline so that customers aren't being hit with the full  
33 cost impact so quickly in that four-year period, it may go  
34 out over a 10-year period, business and industry may be  
35 able to absorb those costs a little bit more efficiently  
36 than if they're hit upfront like in the next four years.

37  
38 MR KENNEDY: Essential Water have just established a new  
39 plant and as was in their presentation, they have a very  
40 high satisfaction with the quality of quantity of water  
41 delivery at the moment. One of the biggest complaints is  
42 price, not the quality of the water.

43  
44 As far as I'm concerned, the Broken Hill community  
45 should not be paying for the maintaining of the pipeline,  
46 the State Government should be delivering water to us. We  
47 paid for it in the first instance, whether that be the

1 mines or the community. That should have been maintained  
2 and completely maintained over that period of time.

3  
4 What I would like to see happen is that an efficient  
5 operational structure be implemented, which was one of the  
6 recommendations of the previous IPART hearing or findings,  
7 and until we find out exactly what amount of operational  
8 costs have been transferred to capital works, considering  
9 there have been extensive capital works over this period  
10 and planned for the next four years, IPART or the community  
11 won't know exactly how efficient they are.

12  
13 In 2009, the increases in 2010, they started off,  
14 that's several hundred collars, a couple of hundred dollars  
15 on 200 kilolitres of water. That's ongoing for 50 years -  
16 it's ongoing forever, but the useful life of the  
17 infrastructure is at least 50 years, so they will  
18 collecting that extra money for 50 years. They have  
19 actually already applied for a certain amount of money to  
20 cover capital costs, and I think that's more than enough.

21  
22 MR EDGERTON: Do you have any specific views in terms of  
23 operating cost efficiencies or savings, where they could be  
24 achieved?

25  
26 MR KENNEDY: Like all organisations, start at the top.  
27 Administration has taken over in a lot of organisations and  
28 that's a fact, there's less people on the ground doing the  
29 work and it just needs to be looked at. It needs to be  
30 identified what is required to have an efficient service  
31 and they need to work towards that. As I said, IPART  
32 identified 12 per cent in operational savings, so that  
33 should be the first basis of work.

34  
35 MR EDGERTON: Just one more follow-up question, and I  
36 would also like to ask Mr Edwards this question as well, if  
37 that's okay. You mentioned your concern about the current  
38 water price structure and the two-tiered usage charge and  
39 the implications for the community. What would you propose  
40 as an appropriate price structure for water?

41  
42 MR KENNEDY: I liked the old system where there was a set  
43 charge with an allowance of water. It enabled people to  
44 keep a garden without thinking, as Marvis said, "I'll save  
45 water where I can." Every dollar that is saved means there  
46 is less water used, which means there is an increased  
47 requirement on Essential Energy to charge more at a later



1 date. If that water is being used, even if we all pay a  
2 little bit extra, you might get lawns back on the front of  
3 verges and stuff like that.  
4  
5 Broken Hill looks run down and many people that come  
6 back to Broken Hill and see it from what it was 10 years  
7 ago, can see just how run down and dry and dusty Broken  
8 Hill is looking. Pavers are the thing now. Everywhere you  
9 go, everyone's yard is hot and horrible, and those that  
10 still try and keep a lawn are paying a considerable amount  
11 of money. It costs me over \$2000 a year to keep a front  
12 lawn. In summer, I use 600 kilolitres of water just to  
13 keep my lawn alive. It's not like Sydney, it is not where  
14 you can save water wherever you can and rely on rain.  
15 I have to use 600 kilolitres of water for a small lawn out  
16 the front.  
17  
18 THE CHAIRMAN: Roger.  
19  
20 MR EDWARDS: A little bit of a quick background. Back in,  
21 I think, about 1995, COAG had a report prepared and there  
22 was a framework set out for reforms of the water industry.  
23 Some of the key points listed there were things like  
24 reallocating water to more high-value uses.  
25  
26 Okay, that sort of got out of control, I think,  
27 because what happened was we saw a savage onslaught on  
28 water consumption in towns and cities, even though they  
29 only represented something like 8 per cent of the total  
30 consumption. As you know, the irrigation lobby is very  
31 powerful and we saw water savings in towns and cities being  
32 reallocated to what they termed food growing - read cotton  
33 for that, which was a high-profit crop.  
34  
35 Part of this was the reason why these multi-tiered  
36 inclining block tariffs were introduced, I believe, to  
37 encourage people in towns and cities to cut their water  
38 consumption. I think the time need for that is long since  
39 past. I personally would like to see a single water price  
40 now. I think people are certainly water conscious and  
41 people are doing all they can to save water. The single  
42 tariff would be high enough to discourage waste, I believe.  
43 I don't think there should be any sort of free allowance  
44 and I believe the structure should be a fixed service  
45 charge which goes a long way towards meeting the costs of  
46 all of the infrastructure and all the operating costs, of  
47 course, met by the single fixed charge.

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1  
2 If there is a two-tiered tariff, I believe that the  
3 threshold of 400 kilolitres is a bit low. From our  
4 investigations back in about 1996, I think it was, I  
5 introduced the user-pays system and our investigations  
6 indicated that 500 kilolitres for an average reasonable  
7 standard home was about the level that was right, and I  
8 still have that view. I know, from my own experience, that  
9 that's about right. I think people are frightened of going  
10 onto the second tier, so they will try to keep their  
11 consumption as low as possible, and we can see the results  
12 around the town.  
13  
14 THE CHAIRMAN: Thanks, Roger. Let's open it to the floor  
15 now. Questions from the floor? Do you want to follow-up,  
16 Tom?  
17  
18 MR KENNEDY: Yes. With the two-tiered system, if we are  
19 going to have a two-tiered system, I think we need to go  
20 the other way, as they do with electricity. Once you get  
21 to the second tier, your price goes down, not up, and that  
22 would encourage people to use water and would encourage  
23 the greening of the city.  
24  
25 Instead of once you get to your 200 kilolitres in  
26 summer, or 100 kilolitres in summer, instead of your price  
27 going up, it could go down. It doesn't have to go down a  
28 lot, but it would be mean that there would potentially be  
29 more people using water, which would increase Essential  
30 Energy's income, which wouldn't result in the higher fixed  
31 charges. Because as Essential Water have stated, they have  
32 got a lot of fixed charges and that's they want to charge  
33 the mine the way they do. It's not about how much water is  
34 used, it's about the fixed charges they have.  
35  
36 So if there is an opportunity to encourage people to  
37 use more water by having a second tier that decreases in  
38 cost, encouraging use, that would also increase  
39 Essential Water's income.  
40  
41 THE CHAIRMAN: Thanks, Tom.  
42  
43 MR ANGELL: Larry Angell, I'm also with the Residents  
44 Association, and I'm supporting what Tom was saying  
45 earlier. However, of course, we are not consultants, we're  
46 not accountants, we're just everyday Joe Blow citizens, and  
47 we're hurting, we're very hurting very bad. We're hurting

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1 because electricity prices have gone up; we're hurting  
2 because of the price of petrol that we have to pay out here  
3 in the Far West; we're hurting because of all these various  
4 other costs, and now we're going to hurt even more with  
5 additional costs of water.  
6  
7 I, too, like Tom, pay around about \$2000 a year for  
8 water. I take a lot of pride in my garden. I can tell you  
9 now if that the price of water goes up to the extent that  
10 we're talking, my garden will go, as simple as that.  
11  
12 Back in the '70s and '80s, when I was a city  
13 councillor, we had very, very big problems with lead  
14 poisoning of our children here in Broken Hill. Through the  
15 conjunction with the Lead Working Group and the council  
16 introducing a greening of the city program, we got those  
17 levels under control. With increased water, it will blow  
18 out of control again, there is no about doubt that.  
19  
20 Essential Water have talked about the ageing of their  
21 assets. What about the aging of the biggest asset in  
22 Broken Hill, which is our people? 30 per cent are  
23 pensioners. I would suggest in excess of 50 per cent of  
24 Broken Hill are on welfare of some sort. We have  
25 baby-boomers about to come on stream, and I would suggest  
26 that within the next 10 years, something like 60 to 70 per  
27 cent of Broken Hill will be on welfare.  
28  
29 When I worked on the mines back in the '80s, there  
30 were 3000 people working on the line alone. Today, there's  
31 about 600. The jobs aren't there. The young people are  
32 leaving town in droves. The old people, they can't afford  
33 to move, they're staying here. We cannot afford a price  
34 increase, and I urge IPART to go back and think about the  
35 capacity of this city to pay any increase in water. We  
36 can't do it.  
37  
38 THE CHAIRMAN: Thank you, Larry. Karrie.  
39  
40 MS LANNSTROM: As a retired mental health nursing sister,  
41 I would have to 100 per cent agree with Larry's statement  
42 talking about the escalation of people in Broken Hill on  
43 welfare. I know the records say right now that it's 30 per  
44 cent of people. Many people in Broken Hill over the age of  
45 50 are on disability pensions and many more that are under  
46 50 are suffering anxiety problems and depression from being  
47 underemployed.

1  
2 I would like to look at not only the physical  
3 components of health, which I think everybody else has  
4 looked at, that Broken Hill needs the physical components  
5 of water in order to cut down the lead and to make  
6 healthier children and healthier adults, but there is also  
7 the mental health aspect. If you're living in a dry, arid  
8 area where to even turn on the water to spray your dog is  
9 going to cost you money, then that causes a lot of  
10 psychological problems for people. The psychological  
11 problems aren't made any easier by people not having the  
12 money to pay the bills.  
13  
14 So I would like to also add my comments to IPART to  
15 please consider the social justice of giving Broken Hill  
16 residents affordable, clean water. We don't have the rain  
17 that the East Coast has, we don't get even a drop of rain  
18 sometimes when they're getting 150 points. So please let  
19 us have a decent water supply.  
20  
21 MR PATTERSON: Colin Patterson is my name. I've got a  
22 shack up at Menindee, and I've got two points of interest  
23 to bring up. Quite a few times now when I've been going up  
24 to Menindee or coming back, one particular time there were  
25 six vehicles passed me going towards Menindee and there  
26 was one person in each vehicle. When I got to the pumping  
27 station at Copi Hollow there, there were six vehicles and  
28 only six people. None of them were workers.  
29  
30 So why can't they learn to share the vehicles between  
31 them and get rid of some and that will save them a bit of  
32 money as well. Not only that, this meeting, could it be  
33 adjourned and put on tomorrow night so the average Joe can  
34 come here and have their say, rather than just a few people  
35 like this.  
36  
37 MR SLIWKA: My name is Steve Sliwka, and I just recently  
38 moved back to town. A couple of things I have got a  
39 concern with the proposal at the moment. Steve, you  
40 mentioned you're meeting the current requirements of heavy  
41 metals in the water. We know now that's under review.  
42 They put those thresholds but they could be quite low in  
43 the time frame you're talking about, building  
44 infrastructure. Should that occur, how easy are you then  
45 to be able to be compliant to actually go down lower than  
46 those thresholds, should that occur, because at the moment  
47 what the WHO and the rest of the scientists are saying is

1 there is actually no safe levels for lead in real terms?  
2 I'm not saying zero, but if it does get lower, what  
3 provisions have you got to be able to meet the compliance  
4 as it gets lower? I've got another question after this as  
5 well.

6  
7 THE CHAIRMAN: I just missed your first name?

8  
9 MR SLIWKA: Steve.

10  
11 MR BASTIAN: If the Australian Drinking Water Guidelines  
12 limits are lowered, then of course we would have to augment  
13 our water treatment process to do that. We do have the  
14 ability to bring on line a six megalitre a day reverse  
15 osmosis plant, if needed. But again, if any extra  
16 treatment is needed, then costs will increase, but we do  
17 have the ability to do that, if needed.

18  
19 MR SLIWKA: Secondly, it's more sort of a local social  
20 thing, but I think I read an article some time back about  
21 making Imperial Lake a recreational area, and obviously due  
22 to the health of the water and the condition of the water,  
23 that wasn't feasible, but the comment came from someone  
24 representing your department saying that you're not in the  
25 business about looking after that, you're just making  
26 water, processing water. I sort of looked at that and  
27 said, "Gee, that's a negative response to try and get a  
28 community response or some backing for it."

29  
30 What I am suggesting now is you've got all this  
31 infrastructure that has been developed over 120 years of  
32 mining here, what about a centralised structure like, for  
33 example, Stephens Creek as an example, and also open it up  
34 to the public and broaden it and allow them to get more  
35 public buy-in to have that structure. Mt Isa is a classic  
36 example, there are a number of cities comparable to our  
37 size that have those things and great supporting venues and  
38 stuff that they can use.

39  
40 At the moment, we can't use any of those things unless  
41 you go to Menindee. There's possibilities for future  
42 tourism and so forth and maintaining one asset as opposed  
43 to having these multitude of assets all over the place.  
44 And what about, are they interlinked, can you actually pump  
45 Umberumberka to Silverton or vice versa and that type of  
46 stuff? As far as I'm concerned, I think Imperial Lake, if  
47 you can't do anything with the water to freshen it up, you

1 may as well (indistinct) real water and leave it at that,  
2 or actually demolish it.

3  
4 THE CHAIRMAN: Thank you.

5  
6 MR BASTIAN: Talking about Imperial Lake, I'm like most  
7 people here, I was born and grew up in Broken Hill. I can  
8 remember it back in the '60s and '70s, it was great. But  
9 Imperial Lake was managed by the North Line at the time  
10 during the mining boom and Essential Water, or the Water  
11 Authority has taken over the running of Imperial Lake.

12  
13 To return Imperial Lake to how it was back in the '70s  
14 or the '80s, it would cost a lot of money and to keep it at  
15 that level, it would cost a lot of money. Of course, rates  
16 would have to rise to reflect that. I think if anything  
17 like that is brought on, you would be looking at more than  
18 a 5.9 per cent increase if you want to turn Imperial Lake  
19 into a tourist attraction. Plus also, we don't allow  
20 entrance to the lake because it's maintained as an  
21 emergency water supply and we don't want contamination in  
22 the lake. That's why we keep Stephens Creek and  
23 Umberumberka no access to the people, so that the real  
24 water in the reservoirs can be maintained. Like anything  
25 else, if you want access to an amenity, it will cost a lot  
26 of money. Is the community prepared to accept that?

27  
28 MR SLIWKA: I mean, that's a comment. As I said, there's  
29 a lot of cities comparable to Broken Hill that do do that  
30 and seem to be able to do it quite well and they're not new  
31 infrastructures, they've been going round for quite a  
32 while. So I'm suggesting it's something that should be  
33 looked at, at least as a vision or proposal. I'm not  
34 suggesting that Essential Energy does all the work and pays  
35 for all the stuff as well, but if we put a proposal  
36 together and get community buy-in and there's other areas  
37 we may be able to contribute, I'm sure, for the viability  
38 of this city and it will help maintain it at least, that's  
39 what I'm saying.

40  
41 THE CHAIRMAN: Thank you, Steve. Other questions or  
42 comment from the floor? Anything else?

43  
44 MS LANNSTROM: If we can't use Imperial Lake and the  
45 North Line owns it, why the hell are we having to pay money  
46 to keep it up?  
47

1 MR BASTIAN: No, the North Line used to own it; we own it  
2 now.

3  
4  
5 THE CHAIRMAN: Matt and Rebecca, anything else?

6  
7 MR EDGERTON: Just another question of Essential Energy,  
8 if that's okay.

9  
10 THE CHAIRMAN: Yes.

11  
12 MR EDGERTON: In your submission, you have proposed  
13 two mechanisms to address revenue risks from variations in  
14 water demand, the demand volatility adjustment and an  
15 unders and overs account. Could you tell us a little bit  
16 more about those and what the rationale is behind them.

17  
18 MS LINDSAY: In our proposal, we did propose a demand  
19 volatility adjustment, and with this business we do  
20 recognise there is a risk of either consumption being too  
21 low but there is also the risk of consumption being too  
22 high, which means customers can pay too much or not enough.

23  
24 So in our research, we discovered that other water  
25 utilities use a mechanism called the demand volatility  
26 adjustment, and how that operates is that if consumption is  
27 5 per cent above or below your forecast, it gets put into  
28 an unders and overs account gets looked at at the next  
29 regulatory period for the purposes of setting revenue.

30  
31 So if, for example, the Broken Hill community used a  
32 lot of water over the four-year period and Essential Water  
33 collected too much revenue in terms of its building block  
34 revenue, that would be somehow dealt with in the next  
35 determination period. What we have proposed is that IPART  
36 will actually decide how that under or over is given back  
37 or charged to customers in the next regulatory period. So  
38 we haven't proposed a strict unders and overs account, as  
39 they would normally operate in a revenue-type approach, but  
40 something that would be open for a review in the next  
41 determination done by IPART and open to customer  
42 consultation.

43  
44 THE CHAIRMAN: Any last questions?

45  
46 MS GOULD: I would like to say that that rebate that the  
47 government took off us some years ago, I feel they should

1 reinstate that because they give the mines the okay to go  
2 ahead and mine these and that's where most of the  
3 contamination comes from, and I'll show you some photos  
4 after to confirm that. So if they are prepared to give  
5 them the okay to do it, they should be prepared to give us  
6 the little rebate back so that we can have our gardens and  
7 wash our windows and everything else for our children.  
8 Thank you.

9  
10 MR TYLER: Joe Tyler. I would just like to ask these  
11 people over here, where does the water come from to fill  
12 Imperial Lake, where does it come from to fill the lake?

13  
14 MR BASTIAN: The water from Imperial Lake comes from -  
15 it's got its own catchment which is part of the north of  
16 Broken Hill, but we can also pump water into it from off of  
17 Stephens Creek to the Broken Hill pipeline. I can tell you  
18 now that we pump more water into it than what we pump out  
19 of it. If you ever go out there and you can see why is  
20 every other dam in the district dry and Imperial Lake still  
21 stays at the same level, it's because we keep topping it up  
22 with water from either Stephens Creek or from the Darling  
23 River via the Stephens Creek pumping station so that  
24 maintain an emergency supply to Broken Hill.

25  
26 THE CHAIRMAN: Any other questions?

27  
28 MR KENNEDY: Just on the under and over, chances are it's  
29 going to be well under. As has happened in every other  
30 increase, water consumption has gone down. So the question  
31 is: does that mean that in four years' time, Essential  
32 Energy will be coming to IPART to say, "Our revenue was  
33 below what we expected, so we want to have a catch-up plus  
34 whatever new increases are proposed"?

35  
36 THE CHAIRMAN: Matt, do you want to answer the  
37 mechanics of unders and overs?

38  
39 MR EDGERTON: I think Natalie was going to respond.

40  
41 MS LINDSAY: The mechanism we have proposed doesn't  
42 adjust immediately, it will be added up at the end of the  
43 regulatory period and we then go to IPART and I suspect we  
44 would propose how we would want that under or over recovery  
45 treated. But it would be up to IPART to consult on that  
46 and make a decision, just like we're have a discussion  
47 today around important issues.

1  
2 THE CHAIRMAN: Time for a last question. Anything else?

3  
4 MS SOFIELD: Just a comment. I think it was very, very  
5 unfortunate that IPART held the meeting at 8.30 in the  
6 morning, or kicked off at 9. There are a lot of my friends  
7 who work who would like to have been here and contributed  
8 to the discussion.

9  
10 THE CHAIRMAN: Okay, thank you for that. Anything else?  
11 No? Well, thank you all very much. Thank you to the  
12 presenters and also for the questions. That was a most  
13 useful session. We have a recording of it, which will be  
14 posted on our website.

15  
16 We will be taking on board the views that have been  
17 expressed here as well as those in the written submissions  
18 and we will come up with our draft determination on the  
19 maximum price for water and sewerage in the Broken Hill and  
20 surrounding areas. We hope to have that out in March 2014  
21 and you will have the opportunity to discuss that, to make  
22 submissions on our draft determination, before we do the  
23 final determination, most likely in early June. So thank  
24 you all very much, and have a nice day.

25  
26 AT 11.20AM THE REVIEW ADJOURNED ACCORDINGLY

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