

Pricing Proposal to the Independent Pricing and Regulatory Tribunal Regulated Prices for the Wentworth to Broken Hill Pipeline Summary of proposal



Introduction

WaterNSW's prices and revenue for monopoly services are regulated by the Independent Regulatory and Pricing Tribunal (IPART). IPART is an independent NSW Government agency that reviews prices for a range of services in NSW which include water, gas and public transport. Prices are generally reviewed every four years.

IPART will shortly commence its process for the inaugural determination of WaterNSW's prices for the Wentworth to Broken Hill Pipeline (the pipeline). As part of this process, IPART requests that WaterNSW provides it with a pricing proposal that publicly explains, justifies and documents its proposed prices for monopoly pipeline services.

This document provides a high level summary of WaterNSW's pricing proposal for the pipeline. For more detail, please refer to WaterNSW's pricing proposal.

Who is WaterNSW?

WaterNSW is a State-owned Corporation formed on 1 January 2015 under the *Water NSW Act 2014* (NSW). We are Australia's biggest water supplier.

We own and operate 42 dams across NSW as well as hundreds of weirs and regulators and a small number of pipelines. We supply and deliver water through our infrastructure and the State's river system to our customers, including Sydney Water, farmers, irrigators, regional towns, industry and environmental water holders.

Through infrastructure planning, delivery and operation, we meet customer-defined levels of service consistent with NSW Government policy and priorities to increase security and reliability of water supplies to customers and communities of NSW.

Wentworth to Broken Hill Pipeline

On 21 November 2016 the *Direction to the Board of WaterNSW to secure the water supply of Broken Hill 2016* (the Pipeline Direction) was made. This directed WaterNSW to arrange for the construction, operation and maintenance of a pipeline from the Murray River to deliver low salinity raw water to the existing Mica Street Water Treatment Plant in Broken Hill, including any associated infrastructure necessary for operation such as new or upgraded distribution pipelines or pump

stations. The pipeline is to generally run along the Silver City Highway road easement.

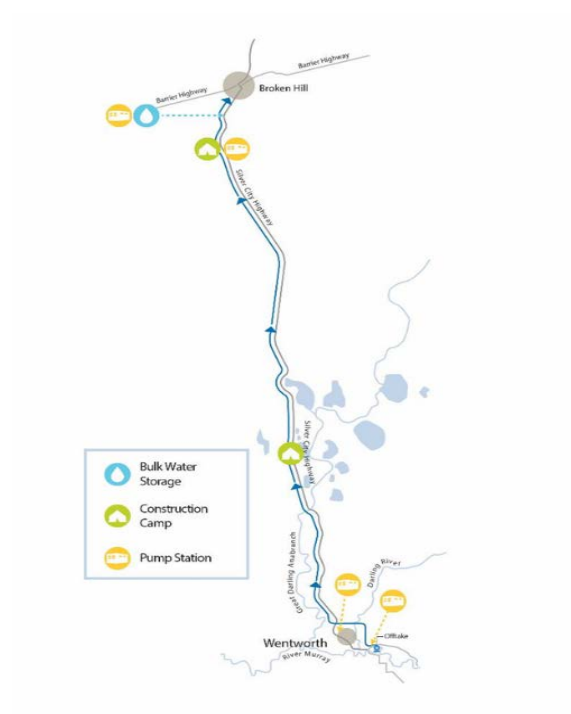
On 31 August 2017 the *Direction to the Board of WaterNSW in relation to the construction of the Broken Hill pipeline 2017* was made. This directed WaterNSW to ensure that:

- the minimum targets set in the NSW Infrastructure Skills Legacy Program are met for the construction of the pipeline
- Australian rolled steel is substantially used in the construction of the pipeline, regardless of where the pipe is manufactured.

Construction of the pipeline is now fully underway with significant kilometres of pipeline in the ground. It is anticipated that the pipeline will be ready for "first water" in December 2018 and to supply water to Broken Hill by April 2019.

Figure 1 is illustrative of the pipeline and associated infrastructure.

Figure 1 Schematic of the pipeline



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How long will the regulatory period be?

WaterNSW is proposing a four year regulatory period, covering the period between 1 July 2019 to 30 June 2023.

Who does this pricing proposal cover?

The customers of the pipeline and those who are affected by this pricing proposal include:

- Essential Water
- a small number of pastoral landholders who may be supplied with raw water from offtakes along the pipeline.

Essential Water will be submitting their pricing proposal to IPART at the same time as WaterNSW's proposal. The cost of the pipeline is expected to be reflected in Essential Water's pricing proposal. Essential Water will seek a contribution from the NSW Government to help meet those costs. The NSW Government will pay for the costs of construction of the pipeline and, as determined by IPART, a portion of the ongoing operation and maintenance costs of the pipeline. IPART will determine the prices that customers of Essential Water will pay for their drinking water.

What are the main features of our proposal?

Regulated Asset Base

IPART will be making the inaugural pricing determination for the pipeline and an important determinant of prices is the value of the regulated asset base (RAB).

The RAB reflects the value of the infrastructure against which prices are set. We are proposing an opening RAB value of **\$458 million** (18-19 real dollars), reflecting the costs of construction of the pipeline. This amount may vary slightly as construction progresses and we will update IPART accordingly.

Revenue Requirement

We are proposing a price cap approach, not a revenue cap approach to regulation. On the basis of the prices we have proposed, an illustrative averaged revenue requirement of **\$30.8 million** (18-19 real dollars) per annum over the proposed 4 year term of the determination arises. This is based on an average per annum utilisation of the pipeline of 5,746 ML.

This illustrative revenue requirement is comprised of approximately \$5 million (18-19 real dollars) in operating and maintenance costs and \$25.8 (18-19 real dollars) million in capital costs and tax allowance.

Offtake outlets

We are proposing annual charges per offtake outlet of **\$13,500** (\$ nominal) per annum for each of the four years of the determination, inclusive of 10ML of demand per offtake outlet.

What happens next?

WaterNSW lodged its pricing proposal with IPART on 29 June 2018. The proposal will be available publicly on IPART's website. The following table provides a high level timetable of the review process as indicated to WaterNSW by IPART.

Activity	Time
Water NSW's pricing proposal due	29 June 2018
IPART releases Issues Paper	September 2018
Submissions in response to Issues Paper due	October 2018
Public Hearing in Broken Hill	November 2018
IPART releases Draft Report and Determination	April 2019
Submissions in response to the Draft Report due	May 2019
IPART releases Final Report and Determination	May 2019