

Independent Pricing and Regulatory Tribunal

27/10/2021

Level 16, 2-24 Rawson Place

SYDNEY NSW 2000

Submission via email

2021 Review of Essential Energy's water and wastewater prices for Broken Hill

This submission has been coordinated by Foundation Broken Hill in partnership with Benagerie Gold & Copper, Cobalt Blue Holdings Limited, Lodestone Mines and Perilya Broken Hill Limited.

This collaborative of mining companies meets regularly with a cooperatively funded Project Officer to address limitations impacting the future of Broken Hill's mining sector and the capacity of Broken Hill to capitalise on current and emerging mining opportunities.

Foundation Broken Hill facilitates business and employment opportunities and encourages social development in the Broken Hill and Far West region. We are independent of any government, and the voluntary directors bring together extensive business and life experience. Now operating for 21 years, the Foundation has contributed over \$1.4 million to local businesses and community organisations.

Foundation Broken Hill undertakes an advocacy and leadership role, working with like-minded organisations and businesses for the advancement and future development of Broken Hill and the region.

We are currently undertaking a project to investigate and develop the strategic directions required for attracting and retaining a skilled residential workforce ahead of planned mining and commercial developments in the Broken Hill region.

Our mining partners, referred above, represent significant existing and future mining interests in Broken Hill and the region. Along with other ventures, they show that Broken Hill will continue to be a substantial mining region within Australia for many decades to come.

The Foundation has taken the opportunity to review and provide comment on some aspects, not all, of the IPART Issues Paper and Essential Water Pricing Proposal as they relate to the water and wastewater pricing for Broken Hill in the next price determination period.

Before the draft determination is released, we request an opportunity to discuss our submission with IPART.

Yours faithfully,



John Lynch OAM, BHSc (M'Ment), FIPA, AFACHSE, MAuSAE, MAICD
Chairman



Travis Nadge
Project Officer

A New Commercial Arrangement with Mining

It is important and fair that IPART and Essential Water begin transitioning towards a more standard commercial arrangement with Broken Hill mining companies.

Instead of Broken Hill's mines providing the default fall-back for revenue recovery, the new pricing should reflect other non-residential customers.

Alleviating the overtly high and ever-increasing access charges currently applied to mining companies in the region will assist mining companies to manage their costs and provide a strengthened economic basis for continuation and investment.

Fairer pricing will, in turn, incentivise the mining companies to enhance their water efficiency measures.

Furthermore, it will provide a pathway for the cessation of mining in Broken Hill in the many decades to come, avoiding a significant price shock to Essential Water and the Broken Hill community at that time.

Continuation of Government Subsidy

As detailed in both the Issues Paper and Pricing Proposal, the commitment from the NSW Government to provide a 4-year subsidy to cover the cost of WaterNSW charges for the new Wentworth pipeline ends in June 2023. While we fully support the proposal to continue the NSW Government subsidy throughout the term of this pricing determination, we advocate that it should remain in place well beyond this determination period.

The Broken Hill community and industry cannot afford to take on the total cost impact of the Wentworth pipeline. It is crucial to resolve this now as:

- it is not reasonable for the community and businesses in Broken Hill to be exposed to a constant cycle of uncertainty - every couple of years or every price review period – associated with the potential removal of the subsidy.
- it is unjust for households and businesses to experience price increases, over and above CPI, year after year, due to the removal of the subsidy.
- Broken Hills high proportion of disadvantaged community groups would suffer significantly with continued pricing increases.

There needs to be a long-term understanding and agreement between Broken Hill and the NSW Government about how the new pipeline's capital cost and ongoing operations will be apportioned. We propose a long-term agreement over multiple decades (or in perpetuity), around how the NSW Government will continue to subsidise the pipeline costs and how the Broken Hill community will contribute.

Forecasting for growth – not decline

Foundation Broken Hill and our mining partners are concerned with the continued view of government departments, and reinforced in this Pricing Proposal, that Broken Hill is in a state of ongoing decline.

While we acknowledge that the Broken Hill population has trended down over many years, we take a very different view of Broken Hills future. We encourage you to look at the landscape of mining activity in the region to gain a more current and accurate picture.

Broken Hill is on the verge of again becoming a significant mining region, with 14 mining projects on our radar alone. These are at various stages of development, from well-established existing operations to new projects starting up in the next few years. There are also longer-term projects that are in their infancy and will be more than a decade away. Many of the known projects have 30+ year lifespans and large forecast workforces.

These projects point to a positive future for Broken Hill as mining reboots the City; creating direct and indirect jobs, stimulating housing demand, and growing opportunity across all sectors of the economy.

If you are planning for Broken Hill to decline, you are forecasting incorrectly.

Stakeholder and Customer Consultation

We are concerned about the stakeholder and customer consultation approach outlined by Essential Water in their Pricing Proposal. Our reasons are:

- There is a reference to the Broken Hill Chamber of Commerce being part of the Essential Water Customer Council –yet the Chamber of Commerce has not existed for 3 years, so it is difficult to see how this consultation occurred.
- Foundation Broken Hill, with its representatives who link to a wide range of industries in Broken Hill, was surprisingly not invited to be part of the consultation process.
- A table within the Pricing Proposal details participation in the Essential Water Integrated Water Management Strategy Workshops (held in late 2020 and early 2021) - with around 15 invitations and 4 attendees. This is low. Any engagement approach should be flexible and adaptive to the local environment. These numbers do not constitute a robust or inclusive process.
- 200 respondents from a survey base of 9900 customers is too small a sample to gain clarity on direction. Again, the methodology failed to adapt in order to seek greater awareness and input.

We recommend an improved engagement and consultation methodology to expand reach and prove a more transparent process to the local community.

Corporate Overheads

The size and application of Essential Energy's corporate overheads needs to be genuinely reviewed and reconsidered by IPART. It is astounding that corporate overheads totalling nearly \$21M over the proposed 5-year period of the determination is considered reasonable and acceptable by Essential Energy.

Corporate overheads should reflect the cost to provide those direct services required by an organisation's corporate functions. They should primarily respond to the actual needs of the business. Essential Waters business should not be burdened by the corporate overheads of a significantly larger electricity distribution business.

In the Pricing Proposal, Essential Energy even states that Essential Water cannot operate efficiently without its own cost control, and that applying the corporate overheads of Essential Energy to Essential Waters operating and capital expenditure using their methodology is inappropriate.

The Essential Energy methodology resulted in a corporate overhead to be applied to capital of \$17.5M, and to operating expenditure of \$15.3M – a total calculated corporate overhead of \$32.8M over the 5-years of the determination period. For this pricing proposal Essential Energy reduced corporate overheads to \$9.9M for capital and \$10.7M for operating expenditure, totalling \$20.6M, based on “maintaining affordability for our customers”.

IPART consultants have recommended more detailed reviews of the corporate overhead allocation methods, questioned the appropriateness of the Essential Energy methodologies, and suggested bottom-up methods to determine corporate overheads. They also echoed concerns raised here of the cost impact of a large entity like Essential Energy on the smaller water business.

Based on a brief review of previous pricing determinations it would appear that fundamentally nothing has changed in the way Essential Energy allocate corporate overheads to Essential Water.

IPART need to re-evaluate the corporate overheads that Essential Water is bearing from the larger Essential Energy entity – which, in turn, is a burden on the customer base. The devil is always in the detail, and IPART should be asking very detailed and pointed questions to get to the bottom of these corporate allocations, not just accepting the response from Essential Energy that their methodology is appropriate as it is approved by an electricity industry regulator.

Closing Statement

The community heavily relies on IPART to thoroughly review the Essential Water Price Proposal.

It is impossible for any external organisation, like ours, to undertake a detailed review. We simply do not have the resources or instruments required to delve into the intricate detail of the Pricing Proposal. We do not have access to the low-level data that underlies the Essential Water proposals and methodologies.

It is up to IPART to be the communities advocate and inquisitor.

For any further discussion or information on this matter or the mining support project, please contact Travis Nadge, Foundation Broken Hill Project Officer (projectofficer@foundationbh.org.au).