



We have released our final decisions on maximum prices that WaterNSW will charge Essential Water and per offtake for the delivery of water via the Murray River to Broken Hill Pipeline (the Pipeline). This is the first time we have set prices for the Pipeline and we made a decision to set prices for three years, from 1 July 2019.

We have set prices that reflect the efficient cost of the Pipeline. Our final prices are lower than what was initially forecast in WaterNSW's pricing proposal. This reduction was driven by:

- ▼ WaterNSW's actual construction costs coming in below initial forecasts
- ▼ IPART's decisions on efficient operating expenditure, asset lives and tax, and
- ▼ updated inflation and market parameters for the WACC.

These prices do not affect the prices Essential Water charges its own customers. The NSW government has made a commitment that prices for these customers will not rise above inflation, for the next four years, as a result of the Pipeline.



What next

WaterNSW will apply the prices from 1 July 2019, for the next 3 years. We will begin our next review of prices in 2 years.



Learn more

The full report and related documents are available at our website: ipart.nsw.gov.au

Our key decisions



Set the notional revenue requirement based on our assessment of efficient costs using the most up to date information provided by WaterNSW and from the market.



Set price structures (ie, a fixed charge to recover fixed costs and a variable charge to recover variable costs) to match the efficient fixed and variable cost structure of the Pipeline.



Set price levels that allow WaterNSW to recover the efficient cost of the Pipeline from EW and offtake customers.

How did we reach our decisions

1. WaterNSW made a pricing proposal to us in June 2018 setting out its proposed revenue needs and prices.

- ▼ We released an Issues Paper in September 2018.
- ▼ We sought public submissions and held a Public Hearing in Broken Hill in November 2018.
- ▼ We released a Draft Report and sought public submissions in April 2019.

2. We determined WaterNSW's revenue needs.

We reviewed WaterNSW's past expenditure for prudence and proposed expenditure for efficiency. We engaged industry experts to advise us.

We also considered other factors, such as the appropriate rate of return on the Pipeline assets.

3. We set prices for Essential Water and offtake customers.

We made decisions on:

- ▼ **Access charges** for Essential Water and per offtake.
- ▼ **Variable usage charges** for Essential Water and water delivered per offtake.

What price would Essential Water pay?

The access charge paid by Essential Water would remain constant in real terms (ie, without inflation) over the three years. The usage charge would change each year, in line with our estimates of the volume of energy (and its cost) required to operate the Pipeline.

Both our access and usage charges are significantly lower than WaterNSW proposed:

- ▼ For access charges, this largely reflects WaterNSW's actual capital expenditure on the Pipeline.
- ▼ For usage charges, this reflects our decisions on the amount of energy required to move water through the Pipeline and the efficient cost of that energy.

Prices for Essential Water (\$2018-19 ie, without inflation)

	2019-20 ^a	2020-21	2021-22
IPART decision			
Access charge (\$/day)	64,120.12	64,295.79	64,295.79
Usage charge (\$/ML)	206.74	209.06	203.09
WaterNSW proposal			
Access charge (\$/day)	80,509.63	80,171.34	79,470.65
Usage charge (\$/ML)	327.80	304.07	256.04
Difference			
Access charge (\$/day)	-16,389.51	-15,875.55	-15,174.86
Usage charge (\$/ML)	-121.06	-95.00	-52.95
Difference (%)			
Access charge (\$/day)	-20.4%	-19.8%	-19.1%
Usage charge (\$/ML)	-36.9%	-31.2%	-20.7%

^a Calendar year 2020 is a leap year (ie, 2019-20 has 366 days)

What are our key decisions?

We adopted price structures that are cost reflective:

- ▼ We set access charges to recover fixed costs and usage charges to recover variable costs.
- ▼ The access charge for Essential Water recovers the efficient fixed costs of the Pipeline.
- ▼ The usage charge reflects our estimate of the efficient (energy) costs of delivering a megalitre of water to Essential Water.

We allocated the fixed costs of the Pipeline between Essential Water and offtake customers on the basis of each party's contribution to the need to incur the cost of the Pipeline:

- ▼ The Pipeline was built (and designed) to supply Essential Water (and its customers in Broken Hill). This is reflected in Essential Water's guaranteed right to the Pipeline's transportation services (offtake customers do not have such a guaranteed right).
- ▼ On this basis, under our prices Essential Water would pay for the fixed costs of the Pipeline, whereas offtake customers would pay the incremental fixed costs associated with their own supply.

We did not accept WaterNSW's proposed declining charge for Essential Water's usage charge:

- ▼ We considered that this pricing structure could create an incentive for Essential Water to use more water from the Pipeline than necessary.
- ▼ Instead we set a single usage charge, to be paid by Essential Water for each megalitre of water delivered to it.

What price would offtake customers pay?

The access charge paid by offtake customers would remain constant in real terms (ie, without inflation) over the three years. The usage charge would change each year in line with our estimates of the efficient energy costs required to operate the Pipeline.

Both our access and usage charges are significantly lower than WaterNSW proposed:

- ▼ For access charges, it reflects our decision that offtake customers should only pay the incremental fixed costs associated with their supply.
- ▼ For usage charges, as this charge is based on the charge for Essential Water, this reflects our decisions on the amount of energy required to transport water through the Pipeline to Essential Water and the efficient cost of that energy.

Prices for offtake customers (\$2018-19 ie, without inflation)

	2019-20 ^a	2020-21	2021-22
IPART decision			
Access charge (\$/day)	19.81	19.86	19.86
Usage charge (\$/kL)	0.20674	0.20906	0.20309
WaterNSW proposal			
Access charge (\$/day)	27.21	27.02	27.46
Usage charge (\$/ML)	321.27	298.73	251.38
Difference			
Access charge (\$/day)	-7.40	-7.16	-7.60
Usage charge (\$/kL)	-0.11	-0.09	-0.05
Difference (%)			
Access charge (\$/day)	-27.2%	-26.5%	-27.7%
Usage charge (\$/kL)	-35.6%	-30.0%	-19.2%

^a Calendar year 2020 is a leap year (ie, 2019-20 has 366 days)
Note: We have assumed 1 offtake customer per offtake.

What are our decisions?

We adopted price structures that are cost reflective.

- ▼ We set access charges to recover fixed costs and usage charges to recover variable costs.
- ▼ The access charge recovers the incremental fixed costs of serving offtake customers.
- ▼ The usage charge is based on our estimate of the cost of delivering a megalitre of water to Essential Water.

We have decided to allow unregulated pricing agreements between WaterNSW and offtake customers under this Determination:

- ▼ This is consistent with other recent water pricing determinations we have made.
- ▼ It allows WaterNSW and an offtake customer to agree a price that is different to our determined price.
- ▼ This creates flexibility that can lead to more efficient prices and/or deliver value to offtake customers.
- ▼ Allowing unregulated pricing agreements does not affect the prices charged to other customers.