

Ref: 20240410MC:RH

10 April 2024

NSW Productivity Commission

Via email: LWUReview@treasury.nsw.gov.au

Essential Water submission to the Alternative Funding Models for Local Water Utilities – Issues Paper

Essential Water welcomes the opportunity to provide feedback to the NSW Productivity Commission on its *Alternative Funding Models for Local Water Utilities - Issues Paper* (“the paper”). We have set out below our feedback to some of the specific issues raised in the paper, as well as some additional feedback we consider relevant for this review.

Essential Water faces challenges similar to Local Water Utilities

Although Essential Water is an operating unit within a State Owned Corporation (“SOC”), and not included within the definition of Local Water Utilities (“LWUs”), the business has much in common with many of the LWUs in NSW. It is a small business, providing essential water and wastewater services in a remote and challenging physical environment with a relatively small number of customers (~10,000). Our community in Broken Hill is one of the most socio-economically disadvantaged in NSW and affordability is a key concern for our customer base.

Our prices are determined by the Independent Pricing and Regulatory Tribunal of NSW (“IPART”). A key focus of our 2022-26 Regulatory Proposal to IPART was securing funding to invest in our water infrastructure, where critical assets are aging and in need of repair or replacement. These investments will ensure we can continue to comply with environmental and other regulatory requirements and deliver the services our customers want and need.

In its final determination, IPART recommended the continuation of the NSW Government subsidy for the WaterNSW pipeline costs to assist with affordability.¹ A further recommendation was that Essential Water work with NSW Government agencies and explore options to provide customers with greater long-term certainty about the status of the WaterNSW Pipeline subsidy and to reflect this in its next pricing proposal.²

Broadening the role of SOCs in reducing the risk of LWUs

The paper notes that compared to LWUs, water utility SOCs generally serve a larger population base and are able to achieve greater economies of scale. In addition, they are able to attract and retain a larger pool of technical expertise. This does not hold true for Essential Water; as a small, ring-fenced division of the Essential Energy electricity business, operating in a remote location, Essential Water does not have the economies of scale of its larger NSW counterparts, nor access to a similar pool of technical talent.

¹ IPART, Review of Essential Water’s prices for water and wastewater services in Broken Hill - Final Technical Report, November 2022, p.70

² Ibid, p.88

The paper goes on to explore the possibility of closer collaboration between SOCs and LWUs utilising a variety of possible methods. In the case of Essential Water, any form of closer collaboration with adjacent LWUs, could not be funded by the existing customer base, whose bills are already heavily subsidised by the NSW Government. Alternative sources of funding and resourcing would be required under such a scenario.

Pensioner rebates in regional NSW fall behind inflation

The paper highlights that local councils are required to offer rebates to pensioners for their water and wastewater bills. These rebates, which were set in 1993, have not been indexed since their inception and have thus declined in real terms by 55%. The rebates of \$87.50 for water and \$87.50 for wastewater are funded by the NSW Government through a Community Service Obligation ("CSO"). These amounts are the same for Essential Water. In contrast, the paper notes that other SOCs, such as Sydney Water and Hunter Water offer considerably more generous rebates of around \$650 and \$380, respectively and that the full cost of these rebates is funded by the NSW Government.

Our 2022-26 Regulatory Proposal to IPART, highlighted that around 17% of the Broken Hill population is receiving the Age Pension, compared to 10% across NSW, demonstrating the importance of the pensioner rebate to Essential Water's customers.³ In its 2022-26 final determination, IPART recommended that the NSW Government review the appropriateness of pensioner concessions for water and wastewater bills across the state.⁴ We consider it appropriate that the level of pensioner rebates are increased so that they better support these customers with the current cost of living.

Essential Water is happy to discuss these issues further. Please contact our [REDACTED].

Yours sincerely

[REDACTED]

Rachel Hussell
A/Chief Corporate Affairs Officer

³ Essential Water 2022 Pricing Proposal Submission, p.28

⁴ IPART, Review of Essential Water's prices for water and wastewater services in Broken Hill - Final Technical Report, November 2022, p.86