



Technical Paper 3

Form of Regulation

September 2025

Central
Coast
Council

Water
and Sewer

Contents

Contents	2
1 Key points	3
2 Form of regulation.....	4
3 Length of determination	6
3.1 Key risks of a five-year price path	7
3.1.1 Demand forecasts.....	7
3.1.2 Under collection of revenue	7
4 Demand Volatility Adjustment Mechanism (DVAM)	8
5 Weighted Average Cost of Capital (WACC)	9
6 Drought characteristics.....	10
6.1 Overview.....	10
6.2 Actions triggered by drought events	11
7 Price.....	12
Abbreviations.....	14

List of Figures

Figure 1: Mangrove Creek Dam storage levels.....	11
Figure 2: Source IPART Water regulation Handbook July 2023 – The legislative framework..	12

List of Tables

Table 1: Forecast and actual sales forecasts for 2022-2026.....	8
Table 2: WACC components	9
Table 3: Water restriction triggers	10



1 Key points

- Council has applied the principles defined in the Independent Pricing and Regulatory Tribunal's (IPART's) 3Cs framework.
- Council will apply IPART's price capping methodology.
- Council is putting forward a five-year determination period in line with IPART's regulatory framework from 1 July 2026 to 30 June 2031.
- Council agrees to move to a five-year regulatory period and believes this would provide a greater level of certainty regarding:
 - Demand forecasts
 - Enhanced meter analysis
 - Operational forecasts
 - Capital works program.
- Required revenue to support asset performance:
 - Price stability for customers
 - Consideration of customer views.
- Council will not be applying any adjustments due to the Demand Volatility Adjustment Mechanism (DVAM).



2 Form of regulation

This technical paper outlines Central Coast Council's (Council) position on the Independent Pricing and Regulatory Tribunal's (IPART) regulatory framework in relation to how it influences water and sewer services.

The aim is to enable the delivery of safe, efficient and reliable services whilst considering customer views and expectations around service levels, asset performance, environment, effective planning, reliable service, water quality and treatment, climate change impacts and pricing.

The paper further discusses drought response; however, Council does not intend to introduce a cost pass through adjustment to the usage charge if drought conditions are experienced between 2026–31.

Council's Water and Sewer Directorate provides water and sewer services to the Central Coast community. These services are considered natural monopolies¹ and, as such, consumer protection in relation to pricing and delivery of service is regulated by IPART. Regulation helps protect consumers by setting parameters to manage the potential risks of monopoly pricing (such as overcharging or poor service).

IPART's 3Cs regulatory framework of Customers, Costs and Credibility ensures:

1. Costs are robust, show commitment to improve value and demonstrate equity and efficiency.
2. Customer and community views are embedded into Council's pricing proposal. It must make the customer central to its business and reflect customer engagement that promote customer outcomes.
3. Investment in capital works aligns to mandatory standards and is efficient and prudent.
4. A level of operational efficiency is identified by the business (refer Efficiency Strategy for detail).
5. Assurances that what is promised in the submission will be delivered by Council.

¹ A natural monopoly in water occurs when the most cost-effective way to provide water services to a region is through a single entity, rather than multiple competing companies.

The current regulatory method used by IPART is “price capping”, which sets a cap on the service and usage charges Council can apply each year of the determination period. The price is determined by the amount of revenue IPART deems necessary for Council to operate an efficient and reliable service for the community. The revenue required is essentially an expenditure review where Council will put forward the expenditure it deems necessary to maintain and renew its assets. This is determined by IPART’s Building Block Model (BBM).

Council is putting a case forward for a five-year determination period from 1 July 2026 to 30 June 2031 (current determination period is four years). Council considers that the additional year will enable bill certainty for customers, reduce administrative and regulatory burden, and provide additional revenue stability.



3 Length of determination

For the future determination (2026-2031), IPART's framework asked each water business to submit a proposal every five years that demonstrates it is promoting customer value.

The five-year cycle includes:

- *Early engagement* - engage with IPART to lay the groundwork for better customer outcomes.
- *Customer focused pricing proposal* – empowers customers to set priorities and influence how services are delivered.
- *Business proposal self-assessment* – providing information and evidence to support a customer focused pricing proposal.
- *IPART assessment* – a public review assesses if the proposal promotes customer value.
- *Monitoring ongoing performance* – informing customers annually about performance against outcomes.

The five-year determination will include the period from 1 July 2026 to 30 June 2031.

The pricing proposal will set out Council's community engagement, values and outcomes, capital works expenditure, operational expenditure, revenue, demand forecasts, population growth and pricing. Council believes a five-year determination provides a greater level of certainty regarding:

- Demand forecasts
- Enhanced meter analysis
- Forecast connections
- Operational forecasts
- Capital works program
- Required revenue to improve asset performance
- Price stability for customers
- Consideration of customer views.

3.1 Key risks of a five-year price path

3.1.1 Demand forecasts

Council dedicates considerable effort towards water demand forecasts, with an understanding that there can be variability due to changing weather patterns across years. The demand forecasts are used in Council's long and near-term water planning. Council uses the integrated supply-demand planning model (ISDP 2.0), details of which can be found in Technical Paper 7.

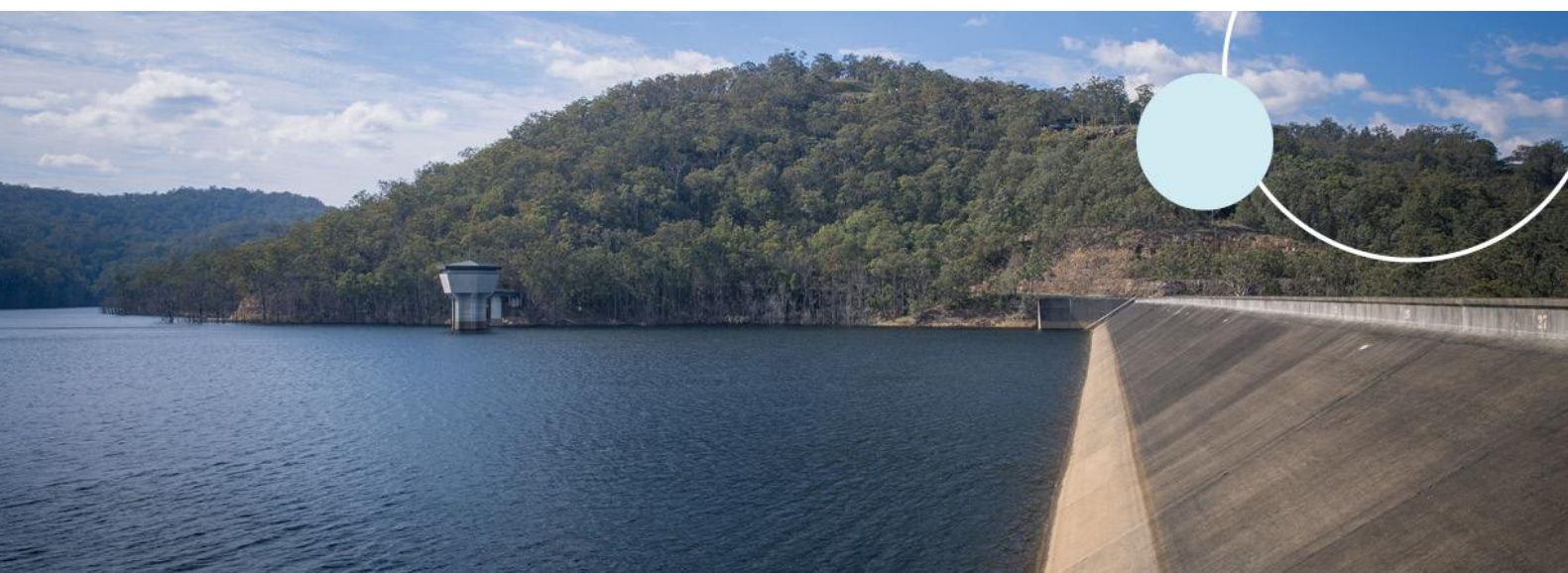
IPART applies a Demand Volatility Adjustment Mechanism (DVAM) in its methodology that puts a cap on any over- or under-recovery of water sales revenue with a $\pm 5\%$ neutral zone during the regulatory period.

3.1.2 Under collection of revenue

There is always a risk to Council's forecast revenue based on IPART's pricing response to Council's submission. If there are unforeseen climate events or regulatory issues and Council has not received the required revenue, then the lower revenue risk is extended for an additional year. This, in turn, can impact asset performance, financial sustainability and ability to meet service levels for the community.

In recognition of recent water quality issues within Terrigal catchments and associated pollution programs in relation to Council's Environmental Protection Licences (EPLs), issued by the NSW Environment Protection Authority (EPA) for the operation of its services, the State Government is driving further investigations into water quality of local waterways.

This is anticipated to be done through inclusion of further Pollution Reduction Programs on Council's EPLs. This would result in regulated investigations and actions.



4 Demand Volatility Adjustment Mechanism (DVAM)

The DVAM is a safeguard used by IPART to address actual water sales that depart from IPART's agreed forecast water sales over the current determination (2022-2026) period. This mechanism is designed to protect the consumer if Council underestimates the demand and over-recovers revenue, or alternatively protect Council if demand is overestimated resulting in an under-recovery of revenue. IPART's final report for Council in the previous determination (2019-2022) and continuing in the current determination (2022-2026) specified a plus or minus 5% neutral zone, where an adjustment can be made to address the over or under recovery of revenue. A material variation is defined as more than 5% (+or -) over the whole determination period:

- IPART will only consider adjusting variation greater than 5% (+ or -)
- IPART will consult as part of the next price review on how the volatility mechanism could be applied if a material variation occurs.

If revenue is set on additional water sales that are not met, then the risk of Council achieving required revenue through usage will be impacted. IPART's current determination (2022-2026) accepted Council's forecast water sales which are shown in Table 1.

Table 1: Forecast and actual sales forecasts for 2022-2026

Category (ML)	IPART decision 2022-23	2023-24	2024-25	2025-26
Stand-alone (houses)	17,602	17,655	17,716	17,781
Multi-premises (apartments)	3,176	3,222	3,270	3,320
Non residential	5,388	5,414	5,440	5,466
Metered exempt	1,160	1,165	1,170	1,175
Total forecasts	27,326	27,456	27,596	27,742
Actual	27,120	27,953	27,687	Not available until FY26

Water sales forecast and actual sales realised figures can be found in Technical Paper 7.

5 Weighted Average Cost of Capital (WACC)

The WACC is the weighted average cost of debt and equity required for a benchmark business to invest in necessary infrastructure. The calculation of the WACC is found using an equal weighting of current (number of years in the determination period) and long-term (10 years) market data to provide a mid-point WACC.

The current WACC components, dated April 2025, are shown in Table 2: WACC componentsTable 2.

The post-tax real WACC is set at 3.3% and has increased from the last determination period (2.8%), driven by a higher nominal risk-free rate.

Table 2: WACC components

Component	Current market data	Mid-point	Long term averages
Nominal risk-free rate	3.3%	3.0%	2.7%
Inflation	2.6%	2.6%	2.6%
Implied debt margin	2.1%	2.2%	2.3%
Market risk premium	6.2%	6.1%	6.0%
Debt funding	60%	60%	60%
Equity funding	40%	40%	40%
Gamma	0.25	0.25	0.25
Corporate tax rate	30%	30%	30%
Equity beta	0.70	0.70	0.70
Post tax real WACC	3.6%	3.3%	3.1%

6 Drought characteristics

6.1 Overview

Central Coast Water Supply System, like any other water supply system, can be impacted by drought. Council has experienced back-to-back to drought impacts during the Millennium drought from 2002 to 2012. More recent drought was experienced from 2017 to 2020 when Central Coast enforced water restrictions as per Council's Drought Management Plan. Council applied Level 1 water restrictions in February 2020 which were lifted in December 2020 when storage levels recovered. The triggers for various levels of restrictions are provided in Table 3.

Table 3: Water restriction triggers

Restriction level	Initiate Restriction Level when Mangrove falls to	Remove Restriction Level when Mangrove Creek Dam rises to
Level 1	50%	55%
Level 2	40%	42%
Level 3	35%	37%
Level 4	30%	32%
Level 5	25%	27%

Since 2020, Council's storage levels have improved. In fact, Council's main storage, Mangrove Creek Dam which governs the security of the Central Coast Water Supply System, filled and spilled in 2022 for the first time in its history since construction in 1982. This happened on the back of Council's decision to lift the 80% storage cap on filling of Mangrove Creek Dam and back-to-back La-Nina climate conditions post the 2017-20 drought. Current storage level is above 90% as on 1 July 2025 as shown in Figure 1.

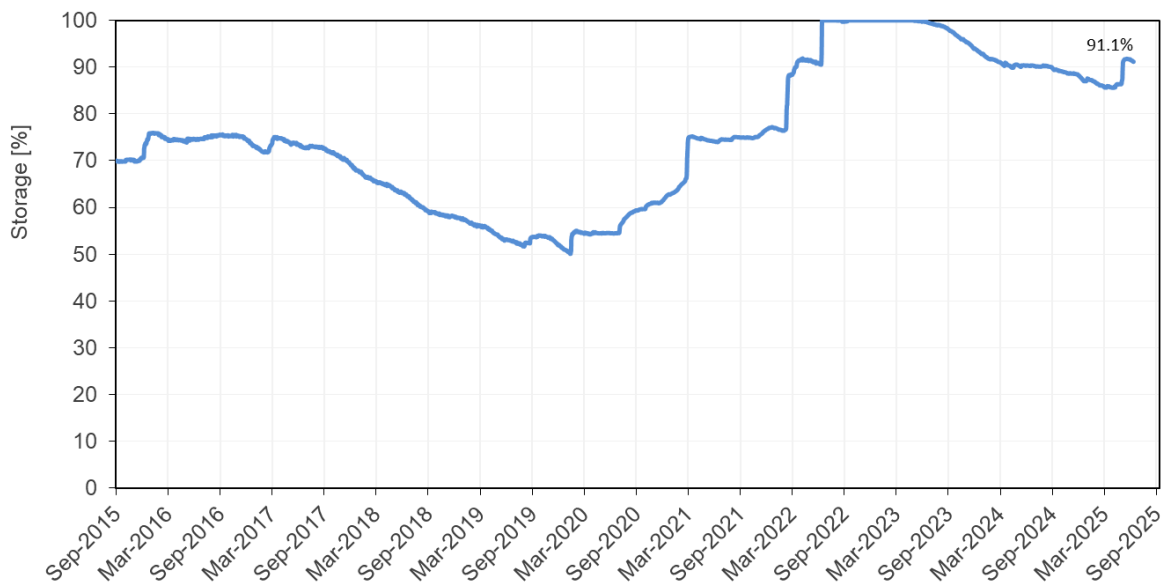


Figure 1: Mangrove Creek Dam storage levels

Historically, it has been observed that Mangrove Creek Dam takes longer to recover but longer to deplete, due to its greater storage per capita, relative to Hunter Water and Sydney Water supply schemes. The current system modelling shows the probability of going on water restrictions in this proposed pricing period (1 July 2026 to 30 June 2031) is very low (less than 2%).

6.2 Actions triggered by drought events

Council's Drought Management Plan guides the region's management of drought risks. The plan follows NSW Local Government emergency management approaches of Prevent / Prepare for / Respond to /and Recover from (PPRR). This approach provides a strategic and systematic drought management process to reduce risk to the Central Coast community by implementing strategies before, during and after drought events.

Council is not proposing a water scarcity price to reflect the increased operational costs of future drought response as part of this pricing proposal.

7 Price

Under the current form of regulation, IPART sets the maximum price structures and levels for monopoly services applied each year of Council's determination:

- IPART's pricing function is to determine the maximum process and monitoring compliance with those prices each year of the determination.
- When fixing a price or setting a methodology, IPART must have regard to the matters to be considered under the IPART Act.
- Section 11 of the *Independent Pricing and Regulatory Tribunal Act 1992* provides the Tribunal to conduct investigations and make reports to the Minister on the determination of pricing. Refer to Figure 2.

Box C.1 Matters to be considered by IPART under the IPART Act

In making determinations and recommendations under this Act, the Tribunal is to have regard to the following matters (in addition to any other matters the Tribunal considers relevant)—

- a. the cost of providing the services concerned.
- b. the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services.
- c. the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales.
- d. the effect on general price inflation over the medium term.
- e. the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers.
- f. the need to maintain ecologically sustainable development (within the meaning of section 6 of the *Protection of the Environment Administration Act 1991*) by appropriate pricing policies that take account of all the feasible options available to protect the environment.
- g. the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets.
- h. the impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body.
- i. the need to promote competition in the supply of the services concerned.
- j. considerations of demand management (including levels of demand) and least cost planning.
- k. the social impact of the determinations and recommendations.
- l. standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).

Figure 2: Source IPART Water regulation Handbook July 2023 – The legislative framework

In addition, under IPART's Principle 6 - *Choice of Services*, there is an opportunity to reflect customer-varied preferences for tariffs for additional services they are willing to pay for.

For this determination period, Council will not be offering varied tariffs, nor entering customer choice pricing proposals for non-residential customers. As the relevant transfer infrastructure has already been constructed, there is no scope for Council to reduce service levels to justify a lower price.

Council's agreement with Hunter Water Corporation (HWC) is described as a 'Negotiated Services Agreement' in the bulk transfers determination. Under that agreement, Council provides bulk water transfers at a rate less than the maximum price set by IPART. Council will continue with that approach into the 2026 determination.

The Determination defines a Negotiated Services Agreement as:

Negotiated Services Agreement means a written agreement between Hunter Water and Central Coast Council, a copy of which is provided to IPART jointly by those agencies, under which one or both of those agencies agrees to provide bulk water.

Schedule 2: Definitions and Interpretation Bulk water transfers between Hunter Water Corporation and Central Coast Council transfers to the other at prices that are not the maximum prices set out in this determination.

HWC and Council executed a negotiated services agreement in March 2020, under which both parties agreed a \$0.33/kL transfer price with no annual escalation for the remainder of the pipeline agreement. IPART noted in its 2019 determination regarding bulk water transfers between HWC and Council that the setting of the price of the transfers can be subject to a Negotiated Services Agreement and not set by IPART.



Abbreviations

BBM	Building Block Model
CAPEX	Capital Expenditure
DVAM	Demand Volatility Adjustment Mechanism
EPA	Environment Protection Authority
EPL	Environmental Protection Licences
IPART	Independent Pricing and Regulatory Tribunal
ISDP	Integrated Supply-Demand Planning model
OPEX	Operating Expenditure
WACC	Weighted Average Cost of Capital



Technical Paper 3

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