



Review of Central Coast Council water prices – Operating and capital costs

# Draft Information Paper

March 2022

Water >>



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## Tribunal Members

The Tribunal members for this review are:

Carmel Donnelly, Chair  
Deborah Cope  
Sandra Gamble

Enquiries regarding this document should be directed to a staff member:

Scott Chapman (02) 9290 8449

Sheridan Rapmund (02) 9290 8430

## Invitation for submissions

IPART invites comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

## Submissions are due by Thursday, 14 April 2022

We prefer to receive them electronically via our [online submission form](#).

You can also send comments by mail to:

2021-22 Central Coast Council water price review  
Independent Pricing and Regulatory Tribunal  
PO Box K35  
Haymarket Post Shop, Sydney NSW 1240

If you require assistance to make a submission (for example, if you would like to make a verbal submission) please contact one of the staff members listed above.

Late submissions may not be accepted at the discretion of the Tribunal. Our normal practice is to make submissions publicly available on our [website](#) as soon as possible after the closing date for submissions. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning one of the staff members listed above.

We may decide not to publish a submission, for example, if we consider it contains offensive or potentially defamatory information. We generally do not publish sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please let us know when you make the submission. However, it could be disclosed under the *Government Information (Public Access) Act 2009 (NSW)* or the *Independent Pricing and Regulatory Tribunal Act 1992 (NSW)*, or where otherwise required by law.

If you would like further information on making a submission, IPART's [submission policy](#) is available on our website.

## The Independent Pricing and Regulatory Tribunal (IPART)

Further information on IPART can be obtained from IPART's [website](#).

## Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders, past, present and emerging.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

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## CCC Water needs to spend more to improve services

IPART sets the maximum prices Central Coast Council can charge its customers for the water, wastewater and other services provided by it as a Water Supply Authority.

IPART also sets the maximum percentage by which Central Coast Council may increase its general income each year through the local government rate peg or special variations.

To ensure it is clear which of Central Coast Council's responsibilities IPART is referring to, throughout this report:

- we refer to the Central Council Council's functions as a Water Supply Authority under the *Water Management Act 2000* as '**CCC Water**'
- we refer to the Central Coast Council's local government functions under the *Local Government Act 1993* as '**the council**'.

Further information is available in our [Draft Technical Paper – Regulatory setting](#).

We are currently reviewing CCC Water's prices for its water-related services and have made draft decisions on the prices to apply for the 4 years from 1 July 2022 to 30 June 2026.<sup>a</sup> Our review only considers prices and costs related to CCC Water. It does not consider those related to the council's general activities for which it charges local government rates, levies and other charges.<sup>b</sup>

We consider our draft prices would allow CCC Water to deliver good quality water and improve services to the community – now and in the future. This draft information paper focuses on operating and capital costs.

In providing water, wastewater and stormwater services, CCC Water incurs 2 types of costs:

- operating costs, which are the day-to-day expenses involved in running its business and maintaining the infrastructure and equipment it uses to provide services (e.g. staff wages, electricity, contractors)
- capital costs, which are the investments it makes to buy, build and renew the infrastructure and equipment it uses to provide services (e.g. water mains and pipelines, wastewater treatment plants, IT systems).

<sup>a</sup> As part of our review we must consider certain matters under the IPART Act 1992 (NSW) – detailed information is available in our [Draft Technical Paper – Regulatory setting](#).

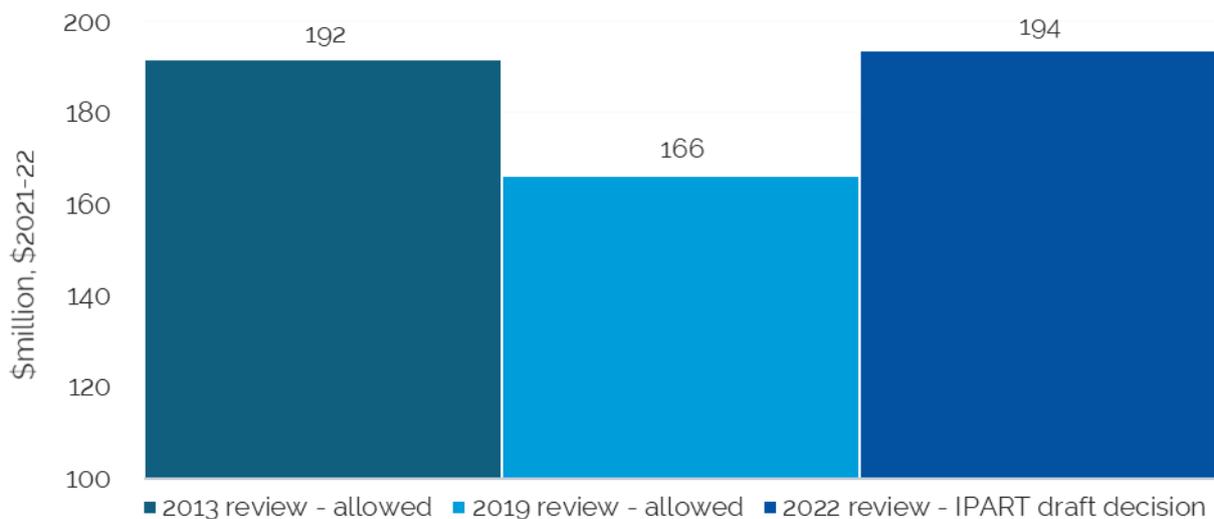
<sup>b</sup> IPART can also review the council's income from rates, but this is a separate review through the special variation process.

We assessed how much of each type of cost CCC Water should need to incur to provide services that meet customers' expectations if it managed its business with minimum wasted effort and expense. Our decisions on these costs, which we call the efficient costs, determines how much operating and capital costs CCC Water will be able to recover through prices over the 2022 determination period. We aim to set the efficient costs so they are no more and no less than necessary, to ensure CCC Water has an incentive to improve how it manages its business, and enough revenue to provide services of acceptable quality.

To make these decisions, we reviewed CCC Water's proposed operating and capital expenditure over the next 4 years, as well as its actual capital expenditure over the last 3 years. To assist us, we asked independent consultants to assess CCC Water's historical and proposed costs, and to compare these costs with those of other water utilities.

Overall, we made a draft decision that CCC Water's efficient costs for the 2022 determination period are \$194 million per year, on average, over the next 4 years. This is 17% higher than the costs we used to set prices in our last review in 2019, 7% lower than CCC Water proposed, and similar to the former Gosford and Wyong councils' combined costs used to set prices in our 2013 reviews.<sup>1</sup> We consider CCC Water needs to increase spending to ensure it can provide services of acceptable quality, but also has opportunities to improve how it manages its business so it can provide better services to customers in the long run.

Figure 1 Average annual cost of providing services (\$million, \$2021-22)



Our draft decisions are

- 6. To set CCC Water's operating expenditure allowance at \$477.7 million over 4 years as shown in Table 2 in our *Draft Information Paper – Operating and capital costs*.
- 7. To set the efficient level of past capital expenditure since 2018-19 to be included in the Regulatory Asset Base as set out in Table 3 in our *Draft Information Paper – Operating and capital costs*.



8. To set CCC Water's efficient level of capital expenditure to be included in the Regulatory Asset Base for the 2022 determination period at \$297.4 million, as shown in Table 4 in our *Draft Information Paper – Operating and capital costs*.

We welcome your views and are keen to hear what you think about our draft decisions, draft recommendations and the issues we have raised as presented in our Draft Report summary, information papers and technical papers.

A complete list of all our draft decisions and draft recommendations is included in our *Draft Technical Paper – Regulatory setting*.

### Have your say

Your input is critical to our review process.

[Submit feedback »](#)

You can get involved by making a submission, submitting feedback, completing our survey and/or attending a public hearing.

[Complete survey »](#)

[Register for public hearing »](#)

We are seeking feedback by **14 April 2022** on our draft decisions and the issues we have identified.

## CCC Water proposed significant cost increases

CCC Water proposed to increase its operating and capital costs by around \$43 million per year, over the next 4 years to improve its water, wastewater and stormwater services to meet service standards. This includes providing good quality drinking water, supplying safe and reliable services, and planning for growth. It proposed to increase its operating costs by around 36%, and its capital costs by 12%, compared to the levels we set at our last review of its prices in 2019.

### Proposed increase to operating costs

CCC Water proposed operating costs of \$524.1 million over the next 4 years. This is around 36% higher per annum than the operating costs we used to set prices in 2019.

CCC Water's proposed operating costs are based on how much it spent in 2019-20. It considers that this expenditure reflects its typical annual costs, whereas more recent years' costs are not representative. This is because the council announced it was in serious financial difficulties and in October 2020, the NSW Government appointed an administrator to temporarily run the council.<sup>2</sup> As a result, CCC Water reduced its costs substantially for the rest of 2020-21, and 2021-22.

To calculate its proposed operating costs, CCC Water adjusted its 2019-20 costs to account for proposed changes in its activities over the 2022 determination period. Its proposed increases in costs are mainly driven by water and wastewater activities, including:

- planning and delivery activities to improve customer communications, water resilience, asset management and strategic planning
- network operations and maintenance activities to maintain and service its infrastructure (e.g. dams, treatment plants and pipes) to make sure it remains usable
- headworks and treatment activities to support its treatment plants and improve bushfire and catchment management.

CCC Water also proposed increased expenditure on existing stormwater drainage activities, and to transfer around \$4 million per year in stormwater-related environmental management costs currently funded through local government rates to the Water Supply Authority.<sup>3</sup>

### Proposed increase to capital costs

CCC Water proposed capital costs of \$313.0 million over the next 4 years.<sup>4</sup> This is around 12% higher per annum than the capital costs we used to set prices in in 2019.

CCC Water stated in its proposal that it had to substantially reduce capital works over the 2019 determination period, partly as a result of the financial issues facing the council. As a result, it is close to and exceeding, in many instances, its regulated requirements and breaching mandatory standards in a range of areas. This will continue without the proposed increase in capital costs.<sup>5</sup>

CCC Water's proposed capital works program over the next 4 years comprises:

- \$160.4 million of spending on wastewater services. This includes capital works at the Charmhaven, Bateau Bay, Kincumber and Gwandalan wastewater treatment plants to manage growth and ensure asset and service reliability (around \$41 million).
- \$116.1 million of spending on water services. This includes a major upgrade of the Mardi water treatment plant to manage water quality risks and restore the plant to its full treatment capacity (\$34 million).
- \$36.4 million on stormwater services.<sup>6</sup>

## We assessed CCC Water's proposed costs

To decide whether CCC Water's proposed costs are reasonable we asked independent consultants to:

- Review CCC Water's proposed operating costs for cost saving opportunities, compare the level of proposed operating costs to those of similar water utilities in Australia, and make recommendations on an efficient level of operating costs for the next 4 years.
- Review CCC Water's actual capital costs from 2018-19 to 2021-22 to determine whether CCC Water spent more than it needed to.
- Look closely at a group of CCC Water's proposed capital projects and provide advice on whether these projects are necessary and their proposed costs are no higher than they need to be. We then asked the consultants to use the findings from its review of these projects to make recommendations on an efficient level of capital costs for the next 4 years.

The consultants' report can be found on our [website](#).

While we decide the overall amount of money CCC Water can collect through the prices its customers pay, it is up to CCC Water to decide how it spends this money. Our decision on efficient operating costs determines how much can be recovered through prices over the next 4 years, but it is up to CCC Water to allocate this money between different operating cost categories. Similarly, while we have assessed a group of CCC Water's proposed capital projects to help us form a view about how much money it can collect through prices, CCC Water is not obliged to adjust these projects in line with our assessment. Rather we expect CCC Water to consult with the community on whether the proposed projects will deliver the level of service customers expect at a reasonable cost. Our *Draft Information Paper – Improving performance* discusses our draft recommendations to ensure CCC Water's spending meets the community's expectations.

## We set operating costs 9% lower than CCC Water's proposal

To help us assess CCC Water's proposed operating costs, we engaged Frontier Economics (Frontier) to review CCC Water's proposal for cost saving opportunities and compare CCC Water's proposal against operating costs of similar water utilities in Australia.

After considering the outcomes of Frontier's analysis, we made a draft decision to set CCC Water's operating costs at \$477.7 million over the next 4 years. This is 9% lower than CCC Water's proposal but 24% higher than the operating costs we used to set prices in the last review.

Our draft decision is based on our findings that:

 <p>CCC Water's proposal includes double counting of water resilience activities and the transfer of stormwater costs</p>	 <p>There are opportunities for additional cost reductions as well as ongoing productivity improvements</p>	 <p>Benchmarking analysis shows that CCC Water's proposed costs are higher compared to those of a reasonably efficient water business</p>
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These findings are discussed in detail in the sections below.

## There are opportunities to reduce costs in CCC Water's proposal

Frontier reviewed CCC Water's proposed operating costs for its water, wastewater and stormwater services, and identified opportunities for CCC Water to reduce the proposed operating costs by around \$53.7 million (10.2%) over the next 4 years. This is based on:

- Removing \$5.0 million of double counting related to CCC Water's proposal to increase spending on water resilience activities
- Not accepting CCC Water's proposal to transfer \$15.4 million of stormwater costs currently funded through local government rates to the Water Supply Authority. Our draft decision on stormwater costs is discussed in our *Draft Information Paper – Funding stormwater services*.
- Adjusting for \$33.3 million of efficiencies in CCC Water's proposal. Frontier recommended a reduction of 5.0% per year to capture cost savings it identified in CCC Water's proposal.<sup>c</sup> Frontier also applied a further reduction of 0.7% per year, based on IPART's expectations for continuous improvements in productivity.<sup>d, 7</sup>

<sup>c</sup> Frontier applied a reduction of 5.0% per year to account for potential cost savings in CCC Water's proposal. This is based on its review of CCC Water's proposal, business cases, interviews with staff, as well as findings from its review of CCC Water's systems and processes, which flagged areas for improvement in CCC Water's asset management, procurement and cost estimation practices.

<sup>d</sup> Based on IPART's standard method for determining the continuing efficiency factor.

## Proposed costs are 9% higher than cost estimates for a reasonably efficient water business

In reviewing CCC Water's proposal Frontier found that most (around 95%) of CCC Water's proposed increases are from changes in activities to target performance to meet existing obligations and service levels. This suggests that the method CCC Water used to derive the base level of costs for its operating cost forecasts may not be appropriate.<sup>8</sup>

As a result, Frontier also used a base-step-trend approach to estimate what CCC Water's operating costs should be over the next 4 years. This involved looking at the operating costs of similar water utilities in Australia. Frontier's base-step-trend approach is explained in Box 1.

## Box 1 Frontier's assessment of proposed operating costs

Frontier's base-step-trend approach is separated into 3 steps.

### Derive a base expenditure range using benchmarking

Frontier used benchmarking to estimate a range for CCC Water's efficient operating expenditure. It drew on data for 27 'Major' and 'Large' water utilities across Australia from the National Performance Report (NPR) over the period from 2009 to 2019 to determine what a 'reasonably efficient' water business of CCC Water's size would need to deliver water and wastewater services. As the NPR data does not include costs related to stormwater services, Frontier applied the ratio of CCC Water's stormwater to water and wastewater operating expenditure from 2013-14 to the economic benchmarking results to derive efficient stormwater costs.<sup>a</sup>

### Identifying genuine step changes

Frontier found that most of CCC Water's proposed changes in activities relate to existing obligations and are implicitly included in its base expenditure range. In Frontier's view, genuine step changes are increases required for meeting new regulatory requirements, addressing major changes in external factors and/or meeting efficient operating and capital expenditure trade-offs.

Frontier identified 4 genuine step changes that reflect new regulatory requirements or emerging risks for CCC Water and allowed additional costs for these.

### Incorporating trend factors

Frontier then adjusted its base expenditure forecasts for increases due to growth using forecast customer connections, and the cost of inputs using a combination of forecast Wage Price Index and Consumer Price Index. We also asked it to apply reductions of 0.7% per year to account for expected productivity gains over the next 4 years.

a. By using the ratio of stormwater to water and wastewater operating costs from 2013-14, Frontier has implicitly excluded the stormwater costs CCC Water proposed to transfer from local government rates to the Water Supply Authority. This is consistent with our draft decision on stormwater costs, which is discussed in our [Draft Information Paper – Funding stormwater services](#).

Source: Frontier Economics & Mott MacDonald, Central Coast Council Water Expenditure Review – Draft Report for IPART, February 2022, pp 23-27 & 65-68.

This analysis resulted in a range for the efficient operating costs from around \$97 million to around \$142 million per year.<sup>9</sup> This range is relatively wide due to the uncertainty associated with data and forecasts.<sup>10</sup> Frontier recommended using the midpoint of \$119.4 million per year to set the efficient level of operating costs for the next 4 years.<sup>e, 11</sup> This is 8.9% lower than CCC Water's proposal, and slightly higher than the alternative option we considered, which involved adjusting CCC Water's proposal for double counting, the transfer of stormwater costs and efficiency opportunities (see Table 1).

Table 1 Comparison of operating cost options

	2022-23	2023-24	2024-25	2025-26	Total
CCC Water's proposal	126.1	130.3	135.1	132.6	524.1
<b>Midpoint of Frontier's expenditure range</b>					
Operating costs	118.5	119.5	119.7	120.1	477.7
Difference compared to CCC Water's proposal (\$m)	-7.6	-10.9	-15.5	-12.5	-46.4
Difference compared to CCC Water's proposal (%)	-6.1%	-8.3%	-11.4%	-9.4%	-8.9%
<b>CCC Water's proposal, adjusted for double counting, transfer of stormwater cost and efficiency opportunities</b>					
Operating costs	114.5	117.6	121.1	117.8	471.0
Difference compared to CCC Water's proposal (\$m)	-11.6	-12.7	-14.0	-14.7	-53.1
Difference compared to CCC Water's proposal (%)	-9.2%	-9.8%	-10.4%	-11.1%	-10.1%

Source: Central Coast Council, Annual Information Return to IPART, 'Opex by item' row 196; email to IPART, Frontier Economics, 3 March 2022 and IPART calculations.

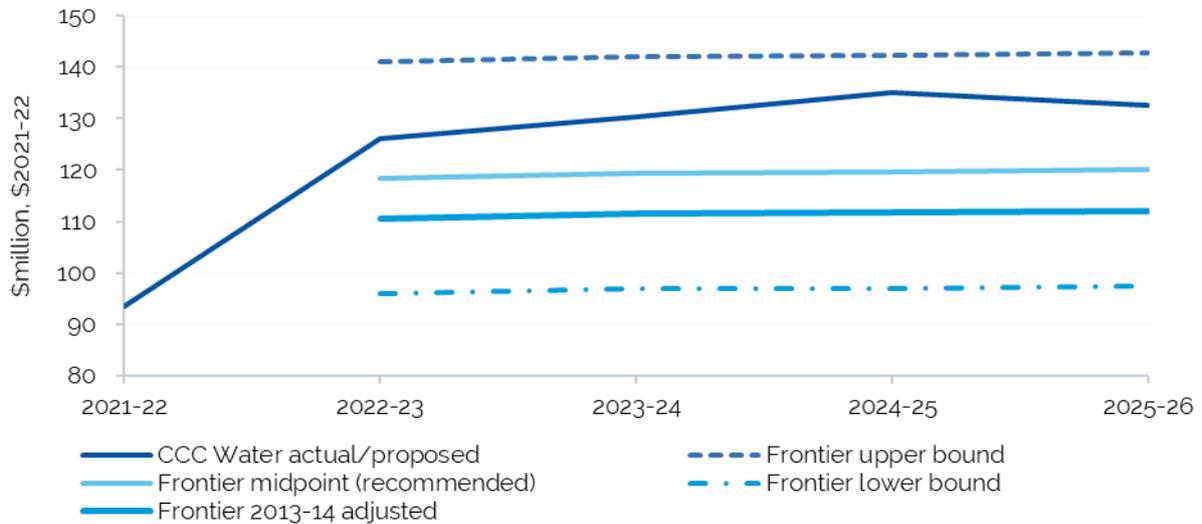
To sense-check the results from the base-step-trend approach, Frontier compared the recommended midpoint to the former Gosford and Wyong councils' combined actual operating costs in 2013-14,<sup>f</sup> and found that the recommended midpoint is around 7% higher. Frontier considers the adjusted 2013-14 figure provides a reasonable estimate of CCC Water's efficient and sustainable operating expenditure because there was no evidence of concerns with the former councils' performance and service standards at that time.<sup>12</sup>

Figure 2 compares CCC Water's proposal and the results of Frontier's analysis, including the recommended midpoint for efficient operating costs, the upper and lower bounds of the expenditure range, and the adjusted 2013-14 figure Frontier used as a sense-check.

<sup>e</sup> These figures are slightly higher than those presented in Frontier and Mott MacDonald's expenditure review draft report due to an update in the inflation forecast for 2021-22 (from 2.0% to 2.9%).

<sup>f</sup> Adjusted for changes in input prices, customer connections and productivity.

Figure 2 Frontier's recommended range for efficient expenditure (\$million, \$2021-22)



Source: Email to IPART, Frontier Economics, 3 March 2022

### CCC Water needs to spend more to deliver services that meet its existing obligations and customers' expectations

Our draft decision is to accept Frontier's recommended midpoint and set efficient operating costs at \$477.7 million over the next 4 years.

Frontier's review shows there is scope for further cost savings beyond adjustments for double counting and the transfer of stormwater costs, such as reflecting flow-on effects from upfront operating expenditure to drive efficiencies.<sup>9-13</sup> As Frontier's review of operating costs focused on a base-step-trend approach, with the base level of costs informed by economic benchmarking, it did not undertake detailed bottom-up assessments of all of CCC Water's proposed increases. As a result, we think the benchmark is the best basis to set prices given the uncertainty in CCC Water's cost estimates.

This is further supported by the fact that if we apply Frontier's estimated cost savings on a program, project and business basis, it would provide similar results as the recommended midpoint.

Under our draft decision, the operating costs CCC Water could recover through prices would be 24% higher than in the 2019 review period.<sup>h</sup> In our view, this increase is necessary so that it can deliver services that meet existing obligations and customers' expectations.

<sup>9</sup> Frontier identified flow-on effects in forecast operating costs as one example of where cost savings may exist. CCC Water's proposed increase in operating costs includes costs associated with transitioning from a reactive to proactive maintenance regime. However, CCC Water's forecasts did not include any corresponding decreases in spending required on reactive maintenance (e.g. overtime costs) that would likely result from a more proactive approach.

<sup>h</sup> On an annual basis.

Our draft decision on efficient operating costs over the 2022 determination period is set out in Table 2.

Table 2 Draft decision on efficient operating expenditure for the 2022 determination period (\$million, \$2021-22)

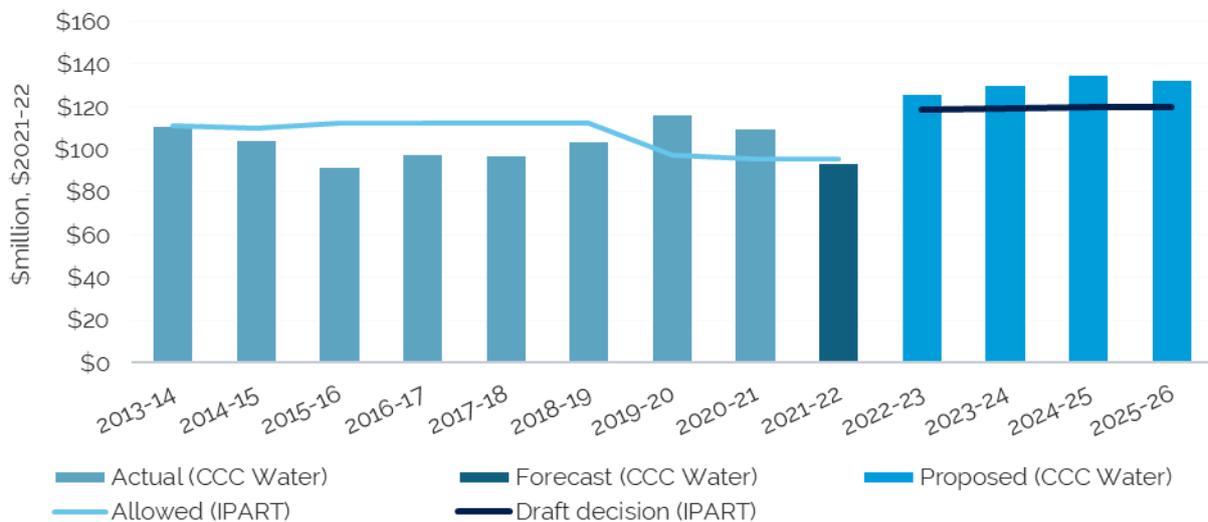
	2022-23	2023-24	2024-25	2025-26	Total
Water	58.2	58.7	58.8	59.0	234.7
Wastewater	49.7	50.2	50.2	50.3	200.4
Stormwater	10.6	10.6	10.7	10.7	42.6
<b>Total</b>	<b>118.5</b>	<b>119.5</b>	<b>119.7</b>	<b>120.1</b>	<b>477.7</b>

Note: The figures presented in Table 2 are slightly higher than those presented in Frontier and Mott MacDonald's expenditure review draft report due to an update in the inflation forecast for 2021-22 (from 2.0% to 2.9%).

Source: Email to IPART, Frontier Economics, 3 March 2022.

Figure 3 shows our draft decision on CCC Water's efficient operating costs over the next 4 years compared to its proposal. It also shows its actual operating costs and the level of operating costs we used to set prices from 2013-14 to 2021-22.

Figure 3 Draft decision on efficient operating costs compared to historical and proposed costs (\$million, \$2021-22)



Note: This figure shows CCC Water's actual spending over 2013-14 to 2020-21, its forecast spending for 2021-22, and its proposed spending from 2022-23 to 2025-26. It also shows the amount of operating costs IPART included in prices from 2013-14 to 2021-22, and the amount we would include over the next 4 years based on our draft decision.

## We set capital costs for the 2019 period slightly below CCC Water's actual capital costs

A regulated entity's actual capital expenditure can vary from its proposed (forecast) expenditure for a range of reasons. For example, the cost of a project might change following new developments, some projects may not go ahead, or there may be unforeseen delays in implementing them. For this reason, at each price review, we assess CCC Water's actual capital spending over the current determination period and compare it to the forecast we used to set prices at our last review. This allows us to adjust the forecast expenditure that we included in its regulatory asset base (RAB) at the last review so that it reflects the level of its actual capital expenditure that we consider was reasonable and in line with what it needed to spend.

For this price review, CCC Water submitted that it expects its actual capital expenditure for the 2019 determination period will be \$205.6 million.<sup>13</sup> This is approximately \$1.9 million (0.9%) more than we included in its RAB in setting prices for this period.<sup>14</sup>

To help us assess this expenditure, we asked an independent consultant, Mott MacDonald, to examine the expenditure and advise us on whether it was no higher than necessary. Mott MacDonald found that CCC Water's spending was largely reasonable, but it recommended 2 adjustments to forecast capital expenditure for 2021-22. These are:

- A reduction of \$6.8 million for the Mardi water treatment plant project.<sup>15</sup>
- A reduction of \$0.58 million for the Charmhaven wastewater treatment plant project. This is consistent with the revised cost profile provided by CCC Water to Mott MacDonald in November 2021.<sup>16</sup>

In line with these findings, we have made a draft decision to reduce the capital costs included in the RAB for the 2019 determination period by \$7.4 million. Table 3 summarises the opportunities for cost savings Mott MacDonald identified, which we have accepted.

**Table 3 Draft decision on efficient capital expenditure from 2018-19 to 2021-22 (\$million, \$nominal)**

	2018-19	2019-20	2020-21	2021-22 <sup>a</sup>
Water	17.6	32.0	41.5	22.7
Wastewater	15.5	22.5	17.2	35.3
Stormwater	9.8	9.6	6.2	11.4
<b>Total</b>	<b>42.9</b>	<b>64.0</b>	<b>64.8</b>	<b>69.4</b>

a. Figures for 2021-22 are forecasts.

Our draft decision on forecast capital costs for 2021-22 is informed by our consultants' *CCC Water Expenditure Review – Draft Report for IPART*, which is available on our [website](#). We will consider responses by all interested stakeholders including CCC Water on whether its forecast spend in 2021-22 on the Mardi water treatment plant is necessary as part of the next stage of our review of CCC Water's proposed costs prior to making our final decision on this.

<sup>i</sup> This is based on actuals for 2019-20 and 2020-21, and forecasts for 2021-22.

## We set capital costs for the 2022 period 5% lower than CCC Water proposed

To help us assess CCC Water's proposed capital costs for the 2022 determination period, we asked Mott MacDonald to review CCC Water's key business systems and processes which drive costs. This helps us to determine whether they represent good industry practice. We also asked Mott MacDonald to examine 10 of CCC Water's proposed capital projects to provide advice on whether they are necessary, and the proposed costs are no higher than they need to be. Mott MacDonald was then required to recommend an efficient level of capital costs for the next 4 years based on its findings.

After considering the outcomes of Mott MacDonald's review, we made a draft decision to set CCC Water's capital costs at \$297.4 million over the next 4 years. This is 5% lower than its proposal but 6% higher than the capital costs we used to set prices in the last review.

Our draft decision is based on our findings that:

 <p>Some proposed capital projects would benefit from further investigations and may be delivered at lower cost</p>	 <p>CCC Water can lower the overall cost of its proposed capital program through better planning, project and infrastructure management</p>	 <p>We expect CCC Water to lower its capital costs over time through ongoing productivity improvements</p>
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These findings are discussed in detail in the sections below.

### CCC Water's business systems and processes are still maturing

As part of our review of CCC Water's costs, we asked the consultants to provide advice on whether its systems and processes reflect good planning, decision making and infrastructure management practices. We think this is important because the maturity of the systems and processes are likely to influence whether the outcomes of these are likely to be efficient and in the long-term interest of customers.

The consultants noted that CCC Water is moving towards good industry practices to ensure that the customer requirements are met in a collaborative and efficient manner. However, CCC Water's business systems and processes are still maturing, meaning that the drivers of its cost proposal for the next 4 years are not yet fully evidence-based and robust.<sup>17</sup> As a result, there is scope for reductions in amount of capital costs proposed by CCC Water for the next 4 years.

## CCC Water can lower the overall cost of its proposed capital program

Mott MacDonald's review focused on 10 individual projects, totalling \$116.3 million over the 2022 determination period. These represent around 37% of CCC Water's proposed capital works program.<sup>18</sup> The review covered:

- 3 water projects, including \$33.6 million for a major upgrade of the Mardi water treatment plant and \$15.8 million for a region-wide water mains asset renewal program
- 5 wastewater projects, including \$16.3 million for a major augmentation of the Charmhaven wastewater treatment plant and \$11.8 million for a sewer mains asset renewal program
- 2 stormwater projects.<sup>19</sup>

It recommended a number of specific adjustments to the 10 proposed capital projects based on issues it identified around CCC Water's optioneering approach, project timeframes, risk management, cost estimation and procurement processes.<sup>20</sup>

Mott MacDonald also considered that there is potential for cost savings across CCC Water's capital program based on its detailed review of the 10 proposed capital projects. It categorised these cost saving opportunities into 3 areas and estimated the cost savings that are likely to result from improvements in each area. However, Mott MacDonald recognised that making these improvements is a gradual process and that the full cost savings cannot be achieved from the first day of the new determination period. As a result, it incorporated only half of the indicative cost savings in its recommendations on efficient capital costs.

It then applied an ongoing reduction of 0.7% per year to reflect IPART's expectation that CCC Water should continue to become more productive over time.<sup>j</sup>

These cost savings, in addition to the specific adjustments for the 10 capital projects reviewed in detail, resulted in a recommended efficient capital costs expenditure range of \$295 million to \$308 million over the next 4 years.<sup>21</sup>

## We consider there are opportunities to reduce overall costs but have not made judgements on individual projects

Our draft decision is to set efficient capital costs at \$297.4 million over the next 4 years. Under this draft decision, the level of costs CCC Water could recover through prices would be 6% higher than in the 2019 review period.<sup>k</sup> Our draft decision is mainly based on the midpoint of Mott MacDonald's recommended expenditure range, with a small downward adjustment due to concerns about CCC Water's ability to deliver the Charmhaven wastewater treatment plant project in the proposed timeframe.

<sup>j</sup> Based on IPART's standard method for determining the continuing efficiency factor.

<sup>k</sup> On an annual basis.

We note that we have established an overall amount of efficient capital costs, with reference to Mott MacDonald's findings. However, we do not approve particular programs or projects for CCC Water to undertake. CCC Water's spending priorities are for it to manage. To ensure it has provided value for money to customers we will again assess these costs in our next review.

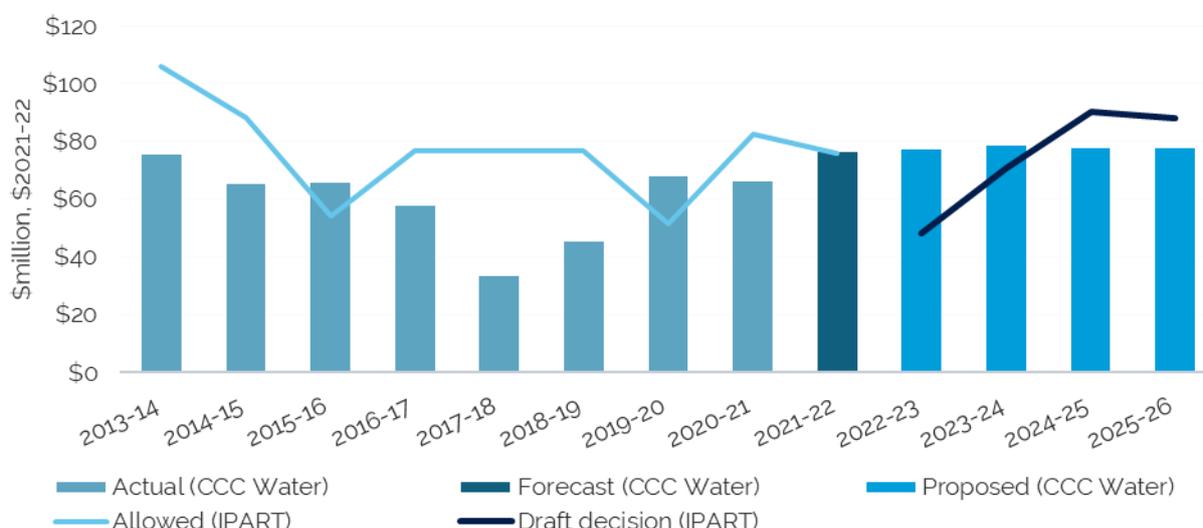
Our draft decision on efficient capital costs over the 2022 determination period is set out in Table 4.

Table 4 Draft decision on efficient capital expenditure for the 2022 determination period (\$million, \$2021-22)

	2022-23	2023-24	2024-25	2025-26	Total
Water	8.9	21.6	18.1	27.7	76.3
Wastewater	31.7	40.6	64.3	51.7	188.3
Stormwater	7.6	8.4	8.1	8.6	32.8
<b>Total</b>	<b>48.3</b>	<b>70.6</b>	<b>90.5</b>	<b>88.0</b>	<b>297.4</b>

Figure 4 shows our draft decision on CCC Water's efficient capital costs over the next 4 years compared to its proposal. It also shows its actual capital costs and the level of capital costs we used to set prices from 2013-14 to 2021-22.

Figure 4 Draft decision on efficient capital costs compared to historical and proposed costs (\$million, \$2021-22)



Note: This figure shows CCC Water's actual spending over 2013-14 to 2020-21, its forecast spending for 2021-22, and its proposed spending from 2022-23 to 2025-26. It also shows the amount of capital costs IPART included in prices from 2013-14 to 2021-22, and the amount we would include over the next 4 years based on our draft decision.

<sup>1</sup> IPART, *Review of Gosford City Council and Wyong City Council water, sewerage and stormwater prices from 1 July 2013 to 30 June 2017*, May 2013, IPART, *Review of Central Coast Council water, sewerage and stormwater prices to apply from 1 July 2019 – Final Report*, May 2019, CCC Water, pricing proposal to IPART, September 2021 and IPART calculations.

<sup>2</sup> CCC Water, pricing proposal to IPART – Technical Paper 5 – Operating expenditure, September 2021, p 8 and Central Coast Council, *Financial Recovery Plan*, accessed 2 March 2022.

<sup>3</sup> Email to IPART, Frontier Economics, 3 March 2022.

<sup>4</sup> CCC Water, pricing proposal to IPART, September 2021, p 66.

<sup>5</sup> CCC Water, pricing proposal to IPART – Technical Paper 4 – Capital expenditure, September 2021, p 8.

<sup>6</sup> CCC Water, Special Information Return to IPART, September 2021, 'SIR Capex 2' rows 12487-12490;

- <sup>7</sup> Email to IPART, Frontier Economics, 10 February 2022 and email to IPART, Frontier Economics, 3 March 2022.
- <sup>8</sup> Frontier Economics & Mott MacDonald, CCC Water Expenditure Review – Draft Report for IPART, February 2022, p 81.
- <sup>9</sup> Email to IPART, Frontier Economics, 3 March 2022.
- <sup>10</sup> Frontier Economics & Mott MacDonald, CCC Water Expenditure Review – Draft Report for IPART, February 2022, p 81.
- <sup>11</sup> Email to IPART, Frontier Economics, 3 March 2022.
- <sup>12</sup> Frontier Economics & Mott MacDonald, CCC Water Expenditure Review – Draft Report for IPART, February 2022, pp 24-27.
- <sup>13</sup> Frontier Economics & Mott MacDonald, CCC Water Expenditure Review – Draft Report for IPART, February 2022, p 83.
- <sup>14</sup> Frontier Economics & Mott MacDonald, CCC Water Expenditure Review – Draft Report for IPART, February 2022, p 90.
- <sup>15</sup> Frontier Economics & Mott MacDonald, CCC Water Expenditure Review – Draft Report for IPART, February 2022, p 16.
- <sup>16</sup> Frontier Economics & Mott MacDonald, CCC Water Expenditure Review – Draft Report for IPART, February 2022, pp 229 & 235.
- <sup>17</sup> Frontier Economics & Mott MacDonald, CCC Water Expenditure Review – Draft Report for IPART, February 2022, pp 11-12.
- <sup>18</sup> Frontier Economics & Mott MacDonald, CCC Water Expenditure Review – Draft Report for IPART, February 2022, p 13.
- <sup>19</sup> Frontier Economics & Mott MacDonald, CCC Water Expenditure Review – Draft Report for IPART, February 2022, p 96.
- <sup>20</sup> Frontier Economics & Mott MacDonald, CCC Water Expenditure Review – Draft Report for IPART, February 2022, pp 13, 187-189, 234-235, 243, 252, 265.
- <sup>21</sup> Frontier Economics & Mott MacDonald, CCC Water Expenditure Review – Draft Report for IPART, February 2022, pp 16-21.