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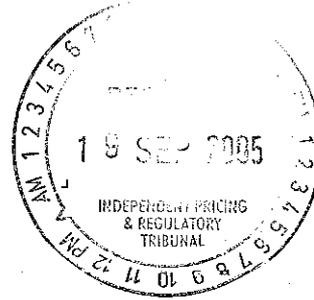
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R Williams

15 September 2005

Mr J Cox  
Chief Executive Officer and Full Time Member  
Independent Pricing and Regulatory Tribunal  
PO Box Q290  
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Dear Mr Cox *Jim*

Please find enclosed our submission on Pricing of Backlog Sewerage Services for Gosford City Council.

If you wish to discuss the submission please do not hesitate to contact our Director Water and Sewer, Rod Williams, on 4325 8980 or our Manager Regulatory Services, Steve Diffey, on 4368 3363.

Yours sincerely

Peter Wilson  
General Manager



*Leading to the future whilst serving for today*



**GOSFORD CITY COUNCIL**

**SUBMISSION TO**

**INDEPENDENT PRICING AND  
REGULATORY TRIBUNAL**

**PRICING OF BACKLOG SEWERAGE SERVICES FOR  
GOSFORD CITY COUNCIL**

**SEPTEMBER 2005**

## TABLE OF CONTENTS

1.	INTRODUCTION.....	3
2.	HISTORY OF PRICING OF GOSFORD'S BACKLOG SEWERAGE SERVICES .....	4
3.	GOSFORD CITY COUNCIL'S BACKLOG SEWERAGE AREAS .....	5
4.	STATUS OF MOONEY MOONEY/CHEERO POINT BACKLOG SEWERAGE PROJECT .....	6
5.	CONSIDERATION OF OPTIONS OUTLINED IN IPART ISSUES PAPER .....	8
6.	COST IMPLICATIONS OF TRIBUNAL OPTIONS.....	10
7.	SUMMARY .....	11

## 1. INTRODUCTION

The Independent Pricing and Regulatory Tribunal (the Tribunal) is conducting a review of pricing arrangements for backlog sewerage services in the Gosford City Council area of operations.

In July 1997, the Tribunal determined a methodology for fixing backlog sewerage capital contributions under section 13A of the Independent Pricing and Regulatory Tribunal Act (1992) (the IPART Act).

Gosford City Council understands that the then Minister for Energy and Utilities wrote to the Tribunal in March 2005 outlining additional project costs for "backlog" sewerage customers due to recent changes to the Country Towns Water Supply and Sewerage (CTWSS) Program in the Gosford area.

The areas defined as "backlog" by the Minister in the Gosford Local Government Area are areas that are outside the existing sewerage service area, not areas that are still required to be serviced by Gosford City Council.

The Minister noted that these costs represent a significant additional impost on property owners within the "backlog" sewerage areas of Gosford City Council area and that these costs may be seen as inequitable when compared with residents in the Sydney Water area of operations.

To address this concern the Minister requested that the Tribunal re-open its 1997 determination of backlog sewerage services in order to examine spreading the additional "backlog" sewerage costs associated with the reduced CTWSS subsidy over the entire Gosford Council customer base.

The Tribunal has decided to limit its review to those backlog communities within the Gosford City Council area of operations by reviewing only Determination 4.2, 1997.

The backlog communities are often communities which are relatively isolated and for which the provision of sewerage services does not involve simple extension of the existing reticulation system. The provision of sewerage infrastructure represents an important community investment in the protection of the environment and the maintenance of public health.

## 2. HISTORY OF PRICING OF GOSFORD'S BACKLOG SEWERAGE SERVICES

In the mid-1970s, Gosford City Council established a regional sewerage scheme which continued until the mid 1990s. This scheme applied to a defined area in and around Gosford for which the eventual provision of water and sewerage services was planned.

For the 20 year period between the mid 1970s and mid 1990s, residents located within this defined sewerage financing scheme area were required to pay "sewerage loan charges" regardless of whether or not they were connected to the Gosford sewerage system on the assumption that they would eventually be connected to the system. Many residents who were initially within the Gosford sewerage financing scheme area paid sewerage loan charges for up to 20 years.

Initially, it was Gosford Council's intention that only properties inside the area covered by this scheme would be provided with sewerage services from loan scheme funds and the Tribunal's 1997 determination of backlog sewerage services was set to take account of this situation.

While the sewerage financing scheme area covered the majority of the Gosford area of operations, there were some remote communities which were not included. These included; Fishermans Parade at Daleys Point, Mooney Mooney, Cheero Point, Little Wobby, Bar Point, Patonga Creek, and areas within Bensville, Empire Bay and South Kincumber.

In the mid 1970s, these communities were isolated from the major metropolitan centres of the Central Coast and for this reason were not to be connected to the metropolitan water or sewerage system. Many properties in these areas were purchased on the assumption that "on-site" water and wastewater systems would be required and residents of these communities were not required to pay sewerage loan charges to Council.

Growth on the Central Coast and more stringent public health and environmental guidelines for on-site wastewater systems during the late 1990s resulted in building approval difficulties for some of these communities (e.g. Fishermans Parade) and calls to provide sewerage services to these communities.

To address this issue, the Tribunal considered these "backlog" sewerage services in 1997 and made Determination 4.2, which is the subject of this review.

Under the 1997 determination the Fishermans Parade sewerage project was considered a special case because residents had not contributed to a specific financing scheme for sewerage in past years. These residents were therefore required to pay for the full cost of the scheme (less subsidy). The Tribunal determined that charges for the provision of water and sewerage to areas where residents had not contributed to a specific water and/or sewerage financing scheme should be worked out according to the Tribunal's developer charges methodology.

### 3. GOSFORD CITY COUNCIL'S BACKLOG SEWERAGE AREAS

Gosford City Council currently has a number of unsewered communities in its area of operations. These communities include:

- Mooney Mooney and Cheero Point;
- Little Wobby;
- Bar Point;
- Areas within Bensville, Empire Bay and South Kincumber;
- Patonga Creek

In 1999 the then Environment Protection Authority (EPA) undertook an environmental assessment of the impacts and human health risks of 64 unsewered areas within the Sydney, Hunter, Gosford and Wyong areas. This environmental assessment ranks the identified unsewered areas based on an assessment of the likely environmental and human health impacts taking into account the existing sewage management arrangements. Each unsewered area was assessed against key environmental parameters and allocated an "A", "B" or "C" environmental ranking, where A is the highest environmental priority for the provision of sewerage services.

All of Gosford's sewerage areas listed above were classified as Category A "backlog" projects. As such, proceeding with these backlog sewerage projects is expected to result in significant environmental improvements and a significant reduction in human health risks.

It should also be noted that the Department of Energy Utilities and Sustainability (DEUS) has independently assessed and assigned a priority Rank 3 to all of these projects, indicating that inadequate sewage management poses significant health and environmental risks.

Gosford City Council had envisaged proceeding with these projects over the coming years, commencing with the Mooney Mooney/Cheero Point project, which is currently being carried out in a joint scheme with Sydney Water.

Funding has now been approved by the State Government for the construction of the Mooney Mooney/Cheero Point sewerage scheme. However no such funding is currently available for the other projects, despite these areas having the same EPA and DEUS ranking.

#### 4. STATUS OF MOONEY MOONEY/CHEERO POINT BACKLOG SEWERAGE PROJECT

Council has been investigating the provision of sewerage reticulation to Mooney Mooney, Cheero Point and Little Wobby since July 2001. Regular updates have been reported to Council on the progress of achieving State Government subsidies and also the formation of a regional sewerage scheme servicing both Mooney Mooney/Cheero Point in Gosford LGA and Brooklyn/Dangar Island in Sydney Water Corporation's service area.

Council had achieved both the Priority Sewerage Program funding of \$3,000 per lot for a limited number of existing residential lots plus a 67% Country Towns Water and Sewerage Scheme (CTWSS) subsidy both from the State Government. Council consulted with the local community and advised that the remaining cost were to be borne by the property owners as per the IPART Determination 4.2, 1997, DEUS guidelines and Council policy. The community was advised in February 2003 that the feasibility estimate for the owner's costs was in the range of \$5,000 to \$7,000 per property.

DEUS subsequently reviewed the funding under the CTWSS, which resulted in a reduction in subsidy from 67% to 50% of the capital cost. The increase in costs per property due to the reduction of CTWSS was estimated at \$3,000 to \$4,000 per lot. Also, there were other cost increases, not related to the subsidies, which were estimated at a further \$3,000 per lot. It was reported to Council on 1 February 2005 that reductions in the CTWSS subsidy would result in a significant increase in the cost per lot to the property owners in Mooney Mooney and Cheero Point. The revised cost estimate at this time was \$11,900 per lot.

Since that time further delays have increased costs. Sydney Water has advised Council of higher estimated costs that will have to be funded to provide the shared infrastructure. The current revised cost estimate is \$12,800 per lot.

The Minister for Energy and Utilities suggested that Council could spread the additional cost of the sewerage scheme across Council's entire rate base to reduce costs to the Hawkesbury communities.

Council considered that this would be contrary to DEUS Best Practice Management of Water Supply and Sewerage Guidelines and to Council's own full cost recovery policy, as well as being non-compliant with IPART Determination 4.2, 1997.

Council subsequently resolved on 1 February 2005 that:

- Council not support a submission to IPART to reopen Determination 4.2, 1997 and proceed on the basis of no cross- subsidisation.
- The Minister be advised of Council's decision and again request the State Government to return the subsidy from 50% to 67% under the Country Towns Water Supply and Sewerage program.
- Council advise the community of Mooney Mooney and Cheero Point of Council's resolution and continue to provide community updates and meetings as required.
- Council continue with the Preferred Servicing Strategy to service the communities of Mooney Mooney and Cheero Point to ensure sewerage services are provided as soon as practicable.

The Minister was advised of Council's resolutions from the 1 February 2005 meeting by letter dated 21 February 2005 and was again requested to reinstate the original subsidy provisions. The Mooney-Cheero Progress Association was similarly advised by letter dated 18 February 2005.

Confirmation was received from the Minister on 15 February 2005 that funds are available for the construction of the Mooney Mooney and Cheero Point sewerage project under the revised conditions of the CTWSS Program, which amounts to 50% subsidy.

Further, the Minister has replied by letter dated 30 May 2005 in regard to Council's request for reinstatement of the 67%. The Minister states that he does not consider that the Mooney/Cheero Project (or any of the other Council sewerage projects) is entitled to an increased level of assistance, as they do not have "exceptional circumstances".

However, it is considered that special circumstances are evident for the Mooney Mooney/Cheero Sewerage scheme. Council understands that the Minister has reinstated the 67% subsidy for the Clarence Town Sewerage project in Dungog Shire Council where special circumstances were cited. It could be argued that the following special circumstance exists for the Mooney Mooney/Cheero Point scheme:

- Extensive community consultation has been carried out to the stage of conducting detailed community surveys on funding and costs based on the original criteria of 67% subsidy under the CTWSS Program.
- There is a very significant expectation from the community that this project will proceed based on the original subsidy offer.
- The current cost to each resident under the new subsidy arrangement is approximately double that identified in the feasibility study.
- During the review of the CTWSS Program, funding was temporarily frozen on this project resulting in delays and increased costs.
- Significant inequity exists with Sydney Water customers in the joint scheme who will not be asked to pay any upfront capital contributions.

Letters requesting reconsideration of the level of subsidy to this project as well as reinstatement of funding for other Gosford PSP projects were sent to the Minister for Utilities, the Premier and Treasurer, and the Assistant Treasurer on 30 August 2005.

## 5. CONSIDERATION OF OPTIONS OUTLINED IN IPART ISSUES PAPER

IPART has asked that Gosford City Council comment on the following options for pricing of backlog sewerage services:

1. Maintain the status quo (as per Determination 4.2 of 1997)
2. Determination of a Special Rate for Mooney Mooney and Cheero Point

As stated above Council resolved on 1 February 2005 not to support a submission to IPART to reopen Determination 4.2, 1997, and to proceed with the Mooney Mooney/Cheero Point project on the basis of no cross-subsidisation.

Therefore Council does not support Option 2 i.e. determination of a Special Rate for Mooney Mooney and Cheero Point and prefers Option 1 i.e. maintain the status quo (as per Determination 4.2 of 1997).

The reasons for Council's position are outlined below.

As well as Gosford City Council having its water, sewerage and drainage fees and charges regulated by IPART, it has its water and sewerage business performance regulated by the Department of Energy Utilities and Sustainability (DEUS). To ensure continued eligibility for CTWSS funding and to retain the right to pay a dividend to Council's General Fund, Gosford City Council's Water and Sewer Directorate must maintain best practice management of water supply and sewerage as measured by annual audits against DEUS performance criteria. A key requirement of the Best Practice Management of Water Supply and Sewerage Guidelines is elimination of any cross-subsidisation funding methodologies. If the Tribunal introduced a special rate for backlog sewerage services, such a cross-subsidy would be introduced thus rendering Council ineligible for CWTSS funding and dividend payment. These funding restrictions would create significant financial difficulties for Council in proceeding with future water and sewerage projects and funding of other General Fund works.

A determination that allows for part or all of the cost of sewerage improvement works under the CTWSS Program to be spread across the rate base will have the following implications:

- The introduction of a cross-subsidy within the rate base which Council has been careful to avoid since the adoption of developer charges in the 1980's. Both DEUS and IPART current principles include no provision for cross subsidisation across Council's area of operation.
- Creation of inequity within the Gosford LGA, with the following points to be noted:
  1. The residents of Fishermans Parade at Daleys Point are still paying off their water and sewerage servicing costs and could then reasonably expect a Council subsidy.
  2. Properties outside the service area could also reasonably expect to have the costs of their scheme extensions to be subsidised by the entire rate base.

3. Developer Service Contributions are based on full cost recovery, which would clearly be challenged under a cross-subsidy pricing arrangement.
  4. All residents within the current regional sewerage scheme made contributions to the funding of the current regional scheme.
- Setting of a special rate for Mooney Mooney/Cheero Point would create a cross-subsidy precedent that could affect other Priority Sewerage Program projects and CTWSS funded projects in Gosford and other NSW Council areas.
  - Pricing of sewerage services outside the regional scheme area below cost will encourage unsustainable growth in these areas and promote unsustainable environmental outcomes.
  - Given that the communities of Mooney Mooney, Cheero Point and Little Wobby are directly comparable with that of Fishermans Parade and that many of the residents of Fishermans Parade are still paying (and will be for many years to come) the full cost of connection as instalments, a decision to change Determination 4.2 would appear grossly inequitable to residents of Fishermans Parade as well as to the ratepayers who have already contributed to the Regional Sewerage Scheme over a 20 year period.

Council acknowledges that the Tribunal has no power to ask the Minister for Utilities to reinstate the 67% CTWSS subsidy originally available to the Mooney Mooney/Cheero Point project, however Council will continue to pursue this option. If ongoing negotiations with the Minister and DEUS were to achieve a reinstatement of the 67% subsidy then the Mooney Mooney/Cheero Point community will not be adversely financially affected by Council's adopted position of not supporting reopening of Determination 4.2, 1997 (i.e. maintain the status quo), and progression of the Mooney Mooney/Cheero Point project on the basis of no cross-subsidisation by the wider Gosford community.

## 6. COST IMPLICATIONS OF TRIBUNAL OPTIONS

A Tribunal Determination to maintain the status quo for the Mooney Mooney/Cheero Point sewerage scheme will result in the following cost outcomes:

- The cost per lot to the owner is estimated to be approximately \$8,600 if the Minister/DEUS were to reinstate the 67% subsidy. This cost was \$8,100 per lot as previously reported to Council but has increased due to project delays.
- The effect of reduction in the CTWSS subsidy from 67% to 50% results in the estimated cost per lot to the owner rising to approximately \$12,800 based on current project estimate (previously reported as \$11,900 per lot).
- The impact of the change from 67% to 50% in the CTWSS subsidy to the community is an increase in cost to the community of \$992,000 based on existing development of 238 lots (previously reported as \$910,000).

A Tribunal Determination of a Special Rate for Mooney Mooney and Cheero Point will have the following cost implications (based on current project cost estimates, which are subject to variation as the project proceeds):

- If the project cost increased amount is spread across all Gosford properties then the:
  - Additional cost per LGA assessment for one year is \$15.90 per assessment (previously reported as \$14.58 per assessment).
  - Additional cost per LGA assessment over 20 years is \$1.38 per assessment (previously reported as \$1.27 per assessment).

A Mooney Mooney/Cheero Point resident would pay approximately \$8,600 (previously reported as \$8,100).

If a Tribunal Determination of a Special Rate for Mooney Mooney and Cheero Point is applied across all unsewered Gosford properties under the CTWSS Program, then the following cost implications will arise:

- Servicing all unsewered Gosford properties under the CTWSS Program, and assuming the difference between the 67% and 50% subsidy results in an average cost difference of approximately \$4,200 per lot then this would result in a total amount of \$2.55M to be spread across rate base. This translating to the following figures:
  - Additional cost per LGA assessment for one year is \$40.87 per assessment.
  - Additional cost per LGA assessment over 20 years is \$3.56 per assessment.

The Tribunal should note that the above figures are based on estimates on information that is currently available and costs may vary as the schemes (including Mooney Mooney/Cheero Point) develop further.

## 7. SUMMARY

In regard to the pricing of backlog sewerage services, Gosford City Council supports Option 1 of the Tribunal's Issues Paper i.e. maintain the status quo (as per Determination 4.2 1997). This will ensure that there is no introduction of a cross-subsidy which is in line with required DEUS Best Practice Management Water Supply and Sewerage Guidelines. This will allow Council to maintain eligibility for CTWSS funding and for payment of a dividend to Council's General Fund.

Council cannot support Option 2 - Special Rate for Mooney Mooney and Cheero Point i.e. the introduction of a cross-subsidy due to:

- Inequities for communities who have funded the non-CTWSS funded component of their backlog project in the past e.g. Fishermans Parade.
- Inequity for residents within current regional scheme who have already completed contributions to their scheme.
- Precedence created for future unserved area to be subsidised by the existing sewerage customers.
- Contradiction of full cost recovery policy, which is the basis of Developer Service Contributions in this Council area.

Gosford City Council continues to lobby the State Government for the reinstatement of the originally agreed 67% CTWSS subsidy for the Mooney Mooney/Cheero Point project and other projects under this Program in order to minimise any cost increases to the community.