

GOSFORD CITY COUNCIL

**PRICES OF WATER SUPPLY, SEWERAGE AND
DRAINAGE SERVICES**

FROM 1 JULY 1999

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES**

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DETERMINATION No 1, 1999		



**INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES**

**REPORT TO THE PREMIER ON THE DETERMINATION OF MAXIMUM PRICES UNDER
SECTION 11 (1) OF THE INDEPENDENT PRICING AND REGULATORY TRIBUNAL ACT,
1992**

Reference No: 98/230

Report: No 1, 1999

Agency: Gosford City Council

Services: Water supply, sewerage and drainage services

Declaration of government monopoly services under Section 4 of the Act:

Order dated 14 February, 1997 – page 558, Gazette No. 18

1 INTRODUCTION

As required by Section 11(1) of the *Independent Pricing and Regulatory Tribunal Act 1992*, the Independent Pricing and Regulatory Tribunal has investigated proposals by the Gosford City Council (a standing reference agency in Schedule 1 of the Act) for maximum prices to be charged from 1 July 1999 for declared water supply, sewerage and drainage monopoly services.

Following consultation with Gosford Council in late 1998, the Tribunal decided to postpone the setting of a new medium term price path for the Council until 1 July 2000. In the interim, the Tribunal has conducted this investigation in order to make a one year determination for the period from 1 July 1999.

The Tribunal's determination of the maximum prices for declared water supply, sewerage and drainage monopoly services is attached with this report.

2 THE PRICE DETERMINATION PROCESS

The Tribunal requested a pricing proposal from Gosford Council. This was received in February 1999. Submissions were invited from interested parties and the public on these proposals and other issues relating to the pricing of these services.

Details of Council's proposals are provided within this report and a list of other submissions received is in an attachment. Copies of all submissions and a transcript of the hearing can be viewed on the Tribunal's website www.ipart.nsw.gov.au and are available for inspection at the Tribunal's office.

The Tribunal members who considered this determination are:

Dr Thomas Parry, Chairman

Mr James Cox, Full-time Member

Ms Liza Carver, Part-time Member

A Public Hearing was held on Thursday 8 April at the Metro Inn, North Gosford. Presentations were made by representatives of Wyong and Gosford Councils. Dr Thomas Parry and Mr Colin Reid (constituting the Tribunal), acting under a power of delegation under Section 10(1) of the *Independent Pricing and Regulatory Tribunal Act 1999*, conducted the public hearing.

3 SUMMARY OF THE DETERMINATION

The Tribunal has considered the matters raised in submissions by Gosford City Council and other interested parties and at the public hearing. The Tribunal intends to make a medium term price path determination for Gosford City Council to take effect from 1 July 2000 so that the period of the price path aligns with the price paths of the other three agencies¹ under the Tribunal's jurisdiction. Thus the current determination is to apply for one year.

Gosford Council has foreshadowed that it wishes to remove the prepaid water allowance from 1 July 2000. In principle, the Tribunal supports Gosford's proposal. Removing the allowance will result in a consumption-based, two-part price structure where all usage is charged for. This would provide better price signals. Such a price structure would also meet the requirements (although not the deadline) of the COAG Water Resource Policy (1995) which requires urban water services to adopt a price structure comprising an access component and a usage component, where cost-effective, by 1998.

Gosford Council proposes that the majority of prices for 1999/2000 remain at current levels in nominal terms, as it wishes to reduce the impact on individual customers of the proposed removal of its prepaid water allowance in 2000/01.

Council supplied analysis of its current and future financial positions which indicated that all financial commitments could be met in 1999/2000 with prices as proposed. The Tribunal has conducted its own analysis based on Council's submission. Council's performance over the last five years has been strong (see section 6 'Issues considered under Section 15'). Council operations have produced solid cash flows and Council has been able to significantly reduce levels of debt. The Tribunal expects that Council will be able to maintain that performance in 1999/2000 under the proposed pricing levels.

The next review in 2000 will set a price path over a number of years. Of necessity, the Tribunal will conduct a rigorous and in-depth analysis of Council's operations for the review. Many of the issues impacting on Gosford Council are common to the other three water utilities (Sydney Water, Hunter Water and Wyong Council). The Tribunal agrees with Council that prices for 1999/2000 should, in general terms, remain at the levels of 1998/1999.

With regard to Miscellaneous Charges, the Tribunal has noted that in 1998/99, Gosford Council did not apply the (CPI-X) reduction intended in the 1996 determination. The Tribunal recognises that the determination may have been unclear in this regard. In setting charges for 1999/2000, the Tribunal has applied the appropriate CPI-X formula to the 1998/99 charges.

The main features of this determination are:

Water charges

- Gosford Council's water base and usage charges in 1999/2000 will be maintained at the nominal levels charged in 1998/99. This will represent a real reduction in these charges equal to the CPI increase of 1.6 percent.²

¹ Sydney Water, Hunter Water and Wyong Council.

² CPI is measured by the increase in the average all-groups CPI for Sydney for the four quarters to March 1999 over the average index value for the four quarters to March 1998. Numerically: $(122.1-120.2)/120.2 = 1.6$ percent.

Sewerage charges

- The residential sewerage charge will be maintained at the nominal 1998/99 level
- a revenue neutral adjustment will be implemented to the non-residential sewerage charges whereby the usage charge is increased to 70 cents per kilolitre (from 68 cents per kilolitre) and the base charge in each service category is appropriately reduced.

Drainage service charge

- The Tribunal has not agreed to Gosford's proposal to increase the Drainage levy by 10 percent to \$44.00 per assessment (\$22 for pensioners) in 1999/2000. The levy will remain at its 1998/99 level of \$40.00 per assessment (\$20 for pensioners).

Miscellaneous charges

- The Tribunal has required that all miscellaneous charges be adjusted to comply with the CPI-1.5% formula proposed in the 1996 determination³. This has meant a moderate downward adjustment for most miscellaneous charges from the 1998/99 level.
- The Tribunal has accepted the level of charges proposed by Gosford for 1999/2000 for a small number of additional miscellaneous charges.
- The Tribunal recognises that Council did not implement the reductions implied by the determination, due to a lack of clarity in the wording of the determination.

4 PREVIOUS MAJOR REVIEW OF WATER AND SEWERAGE PRICING

In June 1996, the Tribunal made a determination that set prices for Gosford Council for the period from 1 July 1996 to 30 June 1999. The main elements of the 1996 Determination in relation to maximum charges for Gosford's water, sewerage and drainage services are summarised below.

4.1 Water charges

The maximum 1996/97 annual water base charges were explicitly defined according to size of service for water usage, commencing at \$168 for the standard metered residential service (20mm). This base charge included a 'prepaid' water usage allowance of 200 kilolitres a year for each individual assessment. The maximum charge for water usage beyond 200 kL was set at 65 c/kL.

4.2 Sewerage charges

The annual residential sewerage charges for 1996/97 were set by a formula which allowed at most a \$50 increase over the applicable charge as at 30 June 1996, and a maximum charge of \$378.

Non-residential sewage charges were defined to be a two-part charge, where the annual base charges were based on size of service for water usage (starting at \$290 per annum for a

³ The relevant CPI for 1998/99 charges was -0.06 percent. Thus charges should have been adjusted by [-0.1(rounded)-1.5 percent] or by -1.6 percent. That is, charges should have been reduced by 1.6 percent.

20mm service) and the usage component was set at 68 c/kL, to be multiplied by a discharge factor assessed by Council. A formula allowed a 'phase in' of these charges in 1996/97. The maximum charge was defined to be the charge applicable at 30 June 1996 plus 25 percent of the increase in charges indicated by the new formula.

4.3 1997/98 and 1998/99 charges

The determination referred to the above group of charges as 'core revenue charges' and stated that Council can adjust these charges in 1997/98 and 1998/99 provided that average core revenue per property decreased in real terms by 5 percent in relation to periodic water charges and 1.5 percent in relation to periodic sewerage charges.

4.4 Drainage, trade waste and recoverable works

Drainage Service Charges were not to exceed charges as at 30 June 1996 (\$40 per assessment and \$20 per pensioner assessment).

The maximum charge for trade waste of 'excess quantity' and acceptable quality was set at 20c/kL. Where trade waste does not comply with the quality required by Council, the maximum charge was set at \$1.30/kL with a possible additional non-compliance penalty of \$1.30/kL.

The maximum charge for recoverable works was to be in accordance with charge out rates published annually by Council.

4.5 Miscellaneous charges

Other miscellaneous water and sewerage fees and charges were specifically defined for 1996/97. The determination stated that these fees and charges "may be adjusted by a factor of CPI-1.5 percent in 1997/98 and 1998/99".

The relevant CPIs for 1997/98 and 1998/99 were 2.34 percent and -0.06 percent respectively. Gosford Council adjusted miscellaneous charges by the CPI-1.5% formula in 1997/98, but did not do so in 1998/99, maintaining charges at the 1997/98 nominal level.

5 SUBMISSIONS

In setting the charges for Gosford Council's water, sewerage and drainage services, the Tribunal encourages public discussion about the key issues. This enables a better understanding of the issues, provides a broader range of inputs than otherwise possible and promotes community acceptance of the final decision.

5.1 Submission from Gosford City Council

In its submission, Council states that it has resolved to eliminate the prepaid water allowance from charges in 2000/2001.⁴ Council proposed minimal change to charges in 1999/2000 in order to reduce the impact of the proposed change in price structure in the following year.

⁴ Gosford submission, p 5.

The proposed charges for 1999/2000 recognise that there will be an impact in the following year and minimal change is proposed for 1999/2000 to provide the maximum opportunity to absorb part of the impact under the new pricing structure.⁵

Water pricing

- Gosford Council proposed that the water base and usage charges remain at 1998/99 levels (with an implied real reduction equal to the CPI).

Sewerage charges

- For 1999/2000, Council proposed a revenue neutral adjustment to the non-residential sewerage charges whereby an increase in the usage charge from 68c/kL to 70c/kL is to be accompanied by an appropriate reduction in the base charge for each service size. Council explained that the increase in usage charge is designed to reflect an increase in real operating costs, and thus make the price structure more cost reflective.
- No change in nominal terms was proposed for the residential sewerage charge which consists only of a base charge.

Drainage levy

- Council proposed a nominal 10 percent per annum increase in the Drainage Levy to apply for the next 5 years, to account for “the significant decrease in value of the levy in real terms of about 8.3 percent”⁶ since 1991. It is proposed the charge increase by \$4 plus inflation each year. For 1999/2000 its proposal was that the charge increase from \$40 per assessment (\$20 per pensioner assessment) to \$44 per assessment (\$22 per pensioner assessment).

Miscellaneous Charges

- For 1999/2000, Council proposed to maintain miscellaneous charges at the nominal level it had charged in 1998/99.
- Gosford included some new charges in the proposed miscellaneous charges for 1999/2000, as follows:

Table 5.1 Proposed Additional Charges

	\$
Specifications for construction of water and sewerage works by private contractors	45.00
<i>Building over Sewer</i>	
• sale of building over sewer specifications	10.00
• concrete encasement supervision	81.00
<i>Supply of water and sewerage reticulation map sheets/longitudinal sections</i>	
• A4 photocopy	2.00
• A3 photocopy	3.00

⁵ Gosford submission, p 5.

⁶ Gosford submission, p 7.

- **Developer Charges** - Council commented that it considers there is a holding charge applicable to existing assets and does not agree with the zero percent discount rate applied by the Tribunal for developer charges.

5.1.1 Other submissions

The Tribunal received two submissions from members of the public during this investigation. One came from the Public Interest Advocacy Centre (PIAC) and the other was from a Gosford resident, Mr M Finlayson.

In relation to Gosford Council's proposals, the submission from PIAC recommended that:

- the Tribunal adopt price cap regulation with respect to water supply to Gosford consumers
- in regard to the proposal to remove the prepaid water allowance
 - the Tribunal consider the impacts on low-income tenants
 - support be given to Wyong Council's proposal that the adoption of the removal of the allowance should be contingent on State Government continuation of the same level of the pensioner rebate
- Gosford and Wyong's miscellaneous charges relating to water pressure inquiries, special meter readings and meter testing be abolished until the level of cost involved in supplying these services is established. (This issue is discussed further in section 7.)

The PIAC submission also noted that it was constrained by the lack of 'any substantial financial information' provided by the two Councils in their submissions.

Mr Finlayson had read both the Wyong and Gosford submissions, and considered the proposals by each Council to be fair and reasonable. However, he expressed concern over the impacts of the intended removal by each Council of the pre-paid water component in 2000/01. He considers the Councils' proposals will "bolster council financial position – contrary to its stated 'revenue neutral' approach."

Mr Finlayson suggested that the Tribunal direct both councils to provide customer profiles and costing analyses in far greater depth to support their future pricing proposals.

6 ISSUES CONSIDERED UNDER SECTION 15

Section 15 (2) of the Act requires that, in any report of a determination or recommendation made by the Tribunal under this Act, the Tribunal must indicate what regard it has had to the matters set out in Section 15(1) in reaching that determination or recommendation.

The matters listed in Section 15(1) are addressed below.

6.1 Costs and efficiency

- * *the cost of providing the services concerned [S15(1)(a)]*
- * *the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers [S15(1)(e)]*

- * *the impact of 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, [S15(1)(h)]*
- * *the need to promote competition in the supply of the services concerned, [S15(1)(i)]*

Utilities' incur both operating and capital costs. Generally, operating costs relate to the expenditure required to maintain assets so that services can be provided in the short term. Capital costs arise from the replacement of existing assets or the commissioning of new assets to expand or enhance services.

At the same time, the expenditure required to provide services should be at an efficient cost level. The Tribunal, through its pricing determinations, has encouraged utilities to increase efficiency - in particular, through cost minimisation.

6.1.1 Operating costs

Gosford's overall cost trends are set out in Table 6.1. This table indicates that since 1993/94 Gosford's total costs have almost halved. Interest costs have fallen in response to the reduction in debt over the period (see Table 6.7 in section 6.3), while depreciation charges have reduced because asset lives were extended in 1995/96. Gosford Council has informed the Tribunal that the large reduction in interest costs from 1993/94 to 1994/95 was due to the significant reduction in net debt in 1994/95 and also to the refinancing of debt at more favourable interest rates.⁷

Table 6.1 Gosford City Council Cost Trends (\$97/98 million)

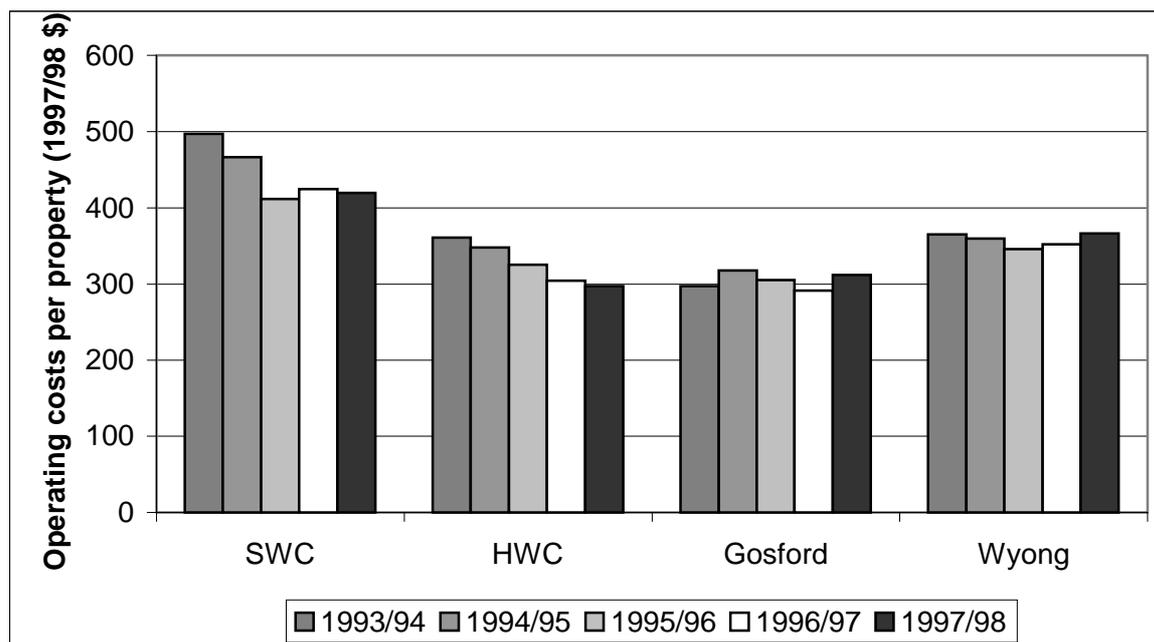
	1993/94	1994/95	1995/96	1996/97	1997/98	Annual average % change
Labour (excl employee provisions)	6	6	6	6	8	7.7%
Consultants	-	-	-	-	-	-
Hire & contract services	-	-	-	1	1	-
Materials	-	-	3	2	1	-
Energy	3	2	2	2	2	-12.1%
Licence fees	0	0	0	0	0	-
BOO costs	-	-	-	-	-	-
Other	7	10	6	6	6	-4.8%
Sales tax, land tax & stamp duties	-	-	-	-	-	-
Employee provisions	1	0	1	1	1	7.2%
Operating cost - core activities	17	18	18	18	19	3.3%
Depreciation	20	16	12	9	10	-16.7%
Interest (incl loan guarantee fees)	31	12	10	9	7	-30.4%
Total expenditure	68	47	40	35	36	-14.6%

Source: 1998 Gosford Annual Information Return.

In real terms, Gosford Council's operating costs per property have averaged around \$300/property in the past five years, as shown in Figure 6.1. The figure shows an increase in real costs per property in 1997/98.

⁷ Telephone conversation with Mr J Davis, Gosford Council, 10 May 1999.

Figure 6.1 Comparison of Operating costs per Property (\$1997/98)



Nevertheless, the comparison in Figure 6.1 indicates that Gosford's costs per property compare favourably with the other three organisations. However, Hunter Water has now brought its costs down below Gosford's on a per property basis. Both Sydney and Hunter Water Corporations have achieved significant real reductions in operating costs per property in recent years.

Table 6.2 presents actual data for Gosford for 1996/97 and 1997/98 and Gosford's projections for 1998/99 and 1999/00. The Tribunal is concerned to note that real costs per property are projected to rise a further 10 percent in 1998/99, although a slight fall is projected for 1999/00.

Table 6.2 Gosford Council Projected Operating Costs Per Property

	No. of Properties	Total Operating Costs (\$1997/98)	Real Costs Per Property (\$1997/98)	% Change
1996/97	60,590	17,625	291	
1997/98	61,383	19,161	312	7.3
1998/99*	62,300	21,438	344	10.2
1999/00*	63,200	21,441	339	-1.4

Source: Gosford 1998 Information Return. * projections.

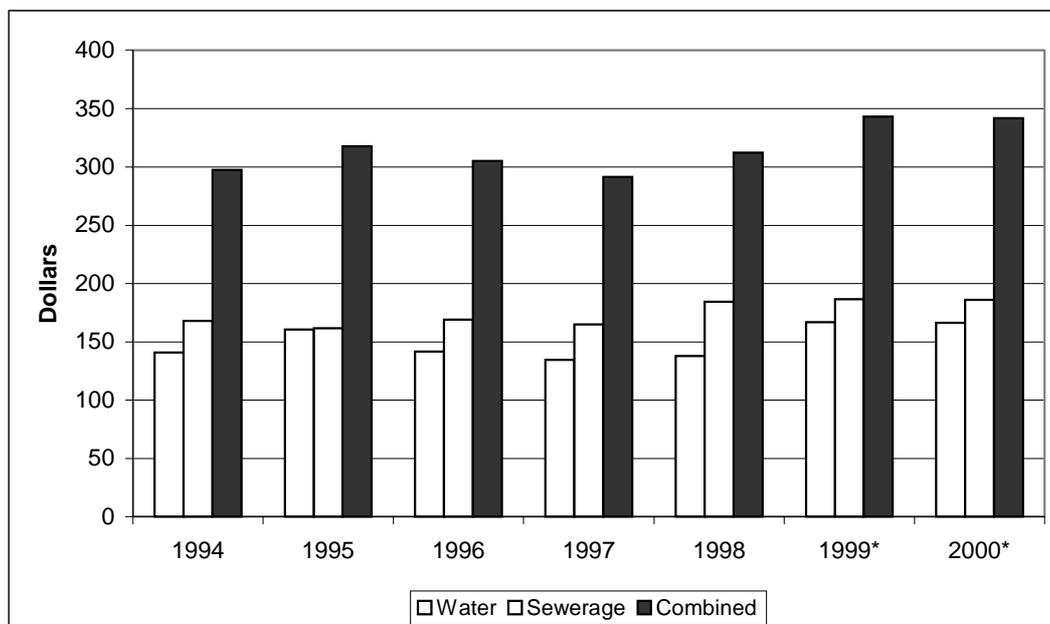
PIAC's submission also expressed concern that Gosford's operating costs have been increasing recently and notes that Hunter Water have achieved a steady decline in costs per property over the same period⁸.

⁸ PIAC submission, p 6.

6.1.2 Scope for efficiency gains

As noted above, the Tribunal is concerned that Gosford’s costs per property are projected to rise a further 10 percent in 1998/99. Figure 6.2 illustrates Council’s projected increase in operating costs per property for 1998/99 and 1999/00 and separates the costs into the Water and Sewerage businesses.

Figure 6.2 Historic and Projected Operating Costs per Property by Business Segment



Source: 1998 Information Spreadsheet (*Projected data for 1999 and 2000).

Table 6.3 demonstrates that most of the projected increase in costs per property in 1999 relate to the water business, with costs rising 21 percent. However, most of the increase in costs per property the year before (1998) was attributable to the sewerage business. The concern remains that operating costs per property in both businesses appear to be trending upwards.

Table 6.3 Percentage Change in Real Operating Costs per Property (\$1997/98)

	1995	1996	1997	1998	1999	2000
Water	13.9%	-11.8%	-4.9%	2.4%	21.0%	-0.4%
Sewerage	-3.8%	4.6%	-2.4%	11.8%	1.2%	-0.4%
Combined	6.8%	-4.0%	-4.5%	7.2%	10.0%	-0.4%

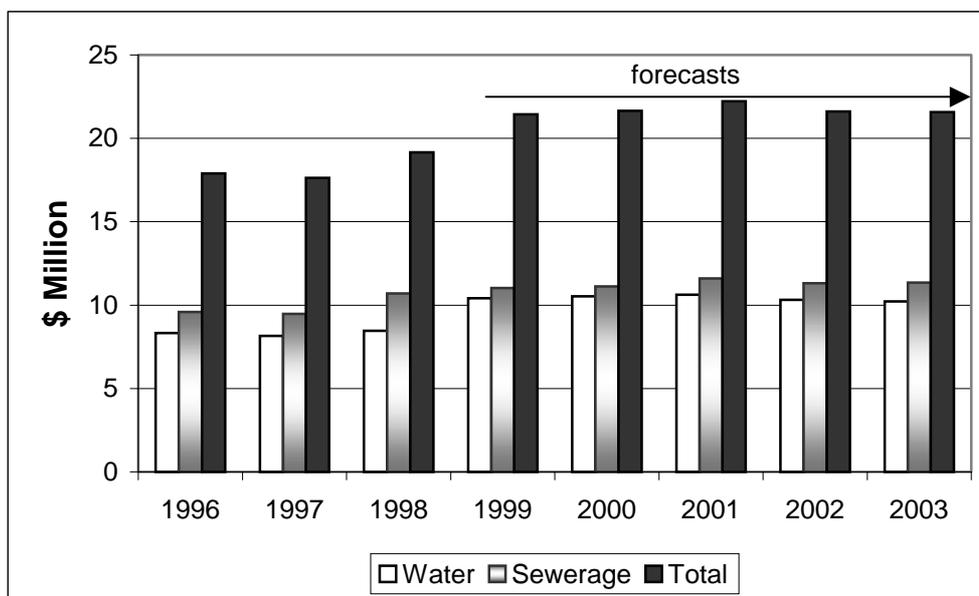
Source: Gosford 1998 Information spreadsheet.

Figure 6.3 illustrates Council’s projected operating costs until the year 2003. In real terms, costs are expected to stay at the 1999 level of more than \$21 million for the next four years.

Information provided by Gosford Council indicates that property numbers for both businesses have been steadily increasing over the past five years, implying that the increases in costs per property can not be attributed to a decline in the number of properties serviced. The population served by the water and sewerage businesses has started to slow in recent times but is nevertheless projected to grow at around 1.5 percent per annum for the next two years.

In its submission, Gosford Council noted that it has been making continuous efforts to improve the performance of the organisation, but that workplace safety issues, structural change in the workplace, improving environmental performance and an increase in system failures had all contributed to the cost of service provision.⁹

**Figure 6.3 Gosford Council Projected Operating Costs
(Excluding Interest and Depreciation) (\$1997/98)**



Source: Table 7.6 Information Spreadsheet.

At the Public Hearing, Gosford was questioned as to why its operating costs were continuing to trend up in recent times. Gosford advised that it attributed the increase in operating costs per property in 1997/98 to a number of factors including the increase in water consumption because of drought conditions and the impact of implementing the national competition policy (NCP) requirement to examine cost allocations. (Council explained this is a requirement to undertake in-house cost attributions and spread on-costs across all areas that benefit from particular in-house services.) Council noted that the NCP requirement has meant that the water and sewerage businesses have been required to pay the General Fund around \$800,000 per annum for rental of its offices.¹⁰

Council also commented that the fact that the Central Coast provided a higher level of service than either Sydney or Hunter would impact on Gosford's costs¹¹.

In particular, Gosford also advised that operating costs in relation to non residential sewerage had been increasing due to the introduction of load based licensing and increased sludge disposal costs.¹² Table 6.4 shows that sewerage costs increased by nearly 12 percent, in real terms, in 1997/98. However, the Tribunal notes that load based licensing will not commence until 1 July 1999 and thus would not have contributed to Council's costs in 1997/98 unless Council has been required to make preparations for the new system.

⁹ Gosford Council submission, pp 9-10.

¹⁰ Public Hearing Transcript, p 25.

¹¹ Public Hearing Transcript p 9.

¹² Letter to Tribunal, dated 20 April 1999 from Gosford Council.

One view is that it is possible that Gosford Council has been at the level of 'best practice' costs for some time and that further cost reductions would be difficult to achieve. This view is reinforced to some extent by Council's relatively good performance demonstrated in Figure 6.1. However, it is nevertheless of concern to the Tribunal to see the significant projected increase in operating costs per property for 1998/99. It remains possible that there is room for cost reductions through efficiency improvements. This issue will need to be revisited in more detail during the medium term review.

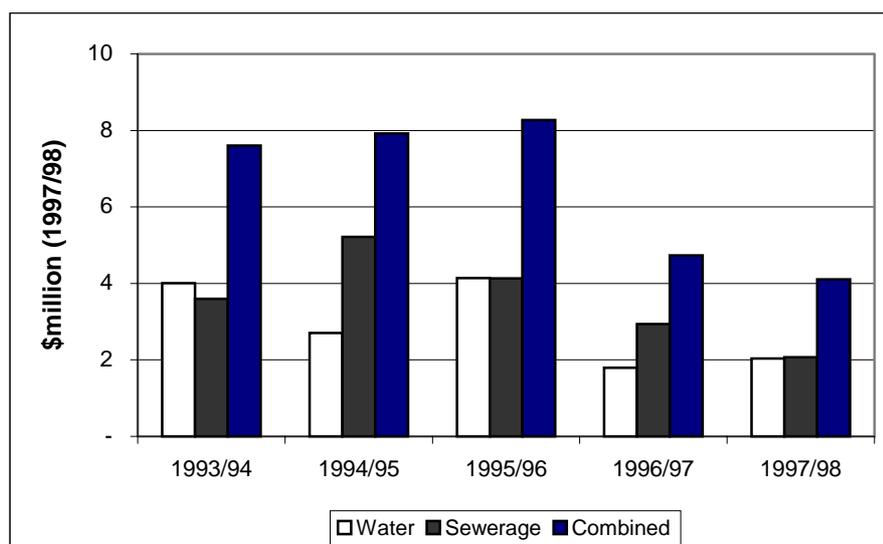
6.1.3 Capital expenditure

The Tribunal's interest in Council's capital expenditure program relates to two factors. Firstly, Council's planned capital expenditure program has implications for its revenue requirements over the period of the Determination. If Council overestimates its capital expenditure, its revenue needs will be overestimated. If the Tribunal accepts Council's overestimated expenditure program, prices set for customers will be higher than necessary for efficient cost recovery. Thus it is important that the Tribunal has confidence in a regulated authority's capital expenditure plans and that an appropriate revenue requirement is used in the price determination process.

Secondly, it is important to determine whether Council's capital expenditure program represents 'efficient expenditure'. Asset services should be provided in the most efficient method possible. Where an authority has permitted 'gold plating' of its assets or has created unnecessary excess capacity, it will be adding unnecessarily to its costs. It is the Tribunal's role to ensure that the cost impacts of inefficient capital expenditure decisions are not passed on to customers.

Figure 6.4 illustrates Gosford's capital expenditure over the past five years. It reached a peak at just over \$8 million in 1995/96 and has declined markedly in the past two years.

Figure 6.4 Gosford Council Historical Capital Expenditure (Including Corporate Assets)

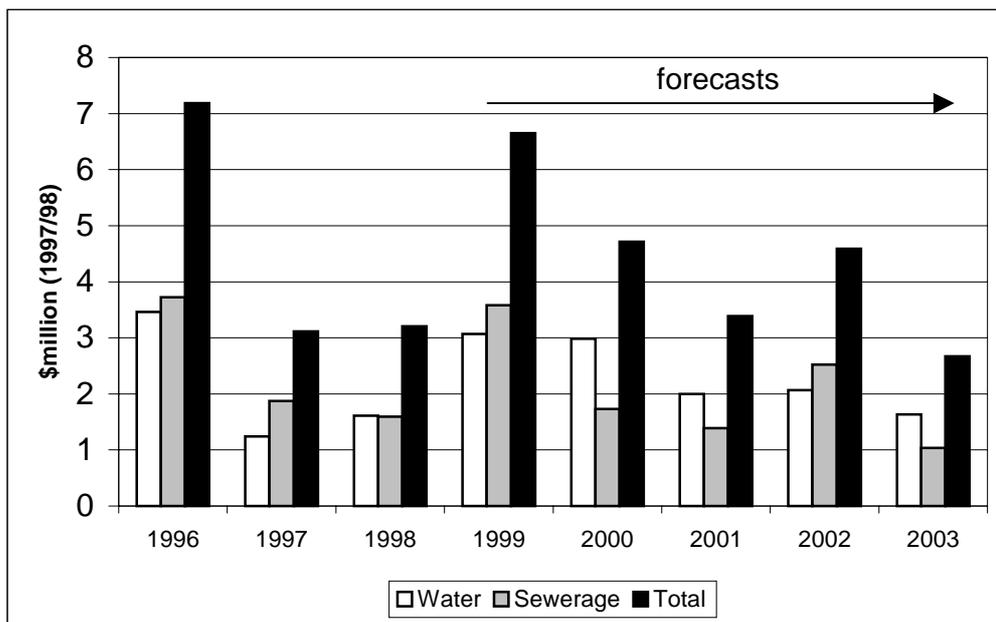


Source: Gosford 1998 Annual Information Return.

Data provided by Gosford on projected capital expenditure on system assets (essentially total capital expenditure, less corporate assets) indicates that capex will peak in 1999 at more than \$6 million before trending down to around \$3 million in 2003 (see Figure 6.5).

The 1999 peak consists mainly of \$5 million worth of ‘new works’ split evenly between water and sewerage works. Gosford Council advises that in addition to the ‘normal’ capital expenditure program for 1999, there will be \$1 million spent on the Terrigal Major Pump Station Upgrade and nearly \$1 million on the North Avoca rising main.

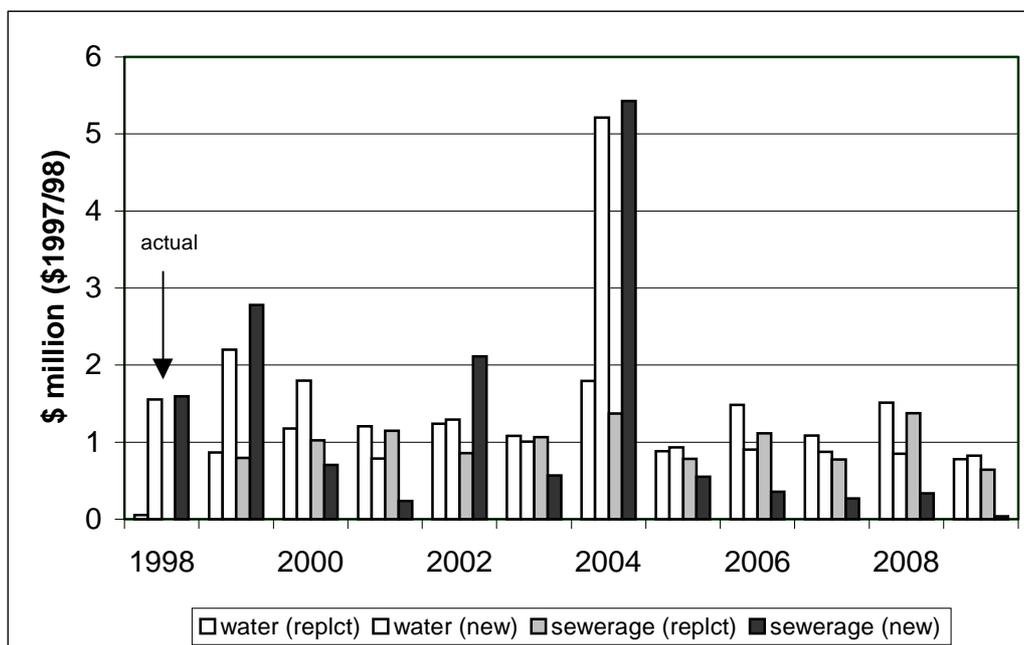
Figure 6.5 Gosford Council Actual and Projected Capital Expenditure on System Assets



Source: Gosford 1998 Information Spreadsheet.

Looking further ahead into the future, Gosford is expecting to undertake major works of \$11 million in conjunction with Wyong Council in 2004. This will consist of more than \$6 million to be spent on the Mardi High Lift pump station and outlet tunnel and a possible \$5 million on the Kincumber Sewerage Treatment outfall.

Figure 6.6 Projected New and Replacement Capital Expenditure by Business Segment



Source: Gosford 1998 Information Spreadsheet.

The Tribunal notes that authorities’ projections of capital works are not always reliable – for example there was a more than 50 percent discrepancy (in real terms) between forecast capital expenditure for 1997/98 listed in Gosford’s submission to the Tribunal’s 1996 Determination and capital expenditure which actually occurred in 1997/98. This highlights a need for an audit of Council’s proposed capital expenditure program. The Tribunal intends to conduct such an audit during the medium term review commencing later this year.

Table 6.4 Projected Versus Actual Capital Expenditure for 1996/97 and 1997/98 (\$1997/98)

	1996/97	1997/98
1996 projection of capital works expenditure (\$’000)	\$8366	\$8,639
Actual capital works expenditure (\$’000)	\$4730	\$4,107
Differential	-43%	-52%

Note: all figures have been adjusted to \$1997/98).

Source: p 6 Appendix A, Gosford 1996 submission and Gosford 1998 Information Return.

6.2 Consumer Protection

- * *the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services [S15(1)(b)]*
- * *the effect on general price inflation over the medium term [S15(1)(d)]*
- * *the social impact of the determinations and recommendations.[S15(1)(k)]*

6.2.1 Pricing

Since the 1996 Determination, Gosford water and sewerage customers have enjoyed a real reduction in prices. The water base charge has reduced by 10 percent in the past two years, and the usage charge, while remaining steady in nominal terms has reduced in real terms.

In its submission, and at the Public Hearing, Gosford signalled its intention to alter its price structure in 2000/01 by removing the prepaid water allowance and effectively moving to a two-part tariff, with a usage charge to apply to every unit of consumption. It is proposing the new price structure in order to remove the cross subsidy which currently flows from low water users to high users.

The proposed change in structure is supported, in principle, by the Tribunal. However, the Council has also indicated that although the move is initially intended to be revenue neutral, approximately two thirds of its customers will experience an increase in water charges. The Tribunal would be concerned about large increases and considers that impacts of the change should be managed well. The Tribunal will be seeking more information during the medium term review on the actual impact on customer groups of the proposed change in structure.

At the Hearing, Council indicated it is aware that it will need to sell the benefits of a more equitable pricing structure to those customers who face an increase in charges. Mr Dutton of the Council advised:

Our intent in going to the community will be that we have ... a cross subsidisation ... and we will be attempting to redress that as part of ... introducing a pricing regime that enables people to make choices about their consumption rate and the amount of money they pay.¹³

Gosford advised that the majority of the cross subsidy is coming from owners of vacant land.¹⁴ This occurs because owners of vacant lots are required to pay the water base charge, even though no water is actually used.

The Tribunal is sympathetic to Gosford Council's argument that the likely price-shock to customers would be minimised if there is no change to most charges in 1999/2000. This would make it possible to introduce the new structure with reduced impact on customers. Depending on Council's financial position, this may be accompanied by an overall reduction in charges.

By agreeing to hold prices constant, the Tribunal is effectively applying a CPI-X formula to prices, where X is equal to the CPI. Thus the decision to freeze nominal charges for the water base and usage charges and the residential sewerage charge effectively delivers a real reduction in prices of 1.6 percent to Gosford customers.

The maximum residential sewerage charge¹⁵ and the non-residential sewerage base charges have reduced by around 3 percent in real terms since 1997. There was also a moderate real reduction in the non-residential usage charge over this time.

¹³ Public Hearing Transcript, p 17.

¹⁴ *ibid.*

¹⁵ Residential sewerage prices were subject to a transition formula, whereby no individual account could increase by more than \$50.00.

Pricing comparisons

Table 6.5 illustrates the difference in charges for the average residential customer across the four water authorities. An average consumer in Gosford has the lowest annual water bill of the four organisations. However, the average consumer in Gosford also faces the highest annual sewerage bill.

When the two bills are combined, the total annual charge for average consumers in each area are remarkably similar, with Sydney having the highest bill and Gosford the second highest. However, the average annual charge in Gosford is \$15.60 lower than in Sydney and is only \$2 more than in Wyong. Hunter Water currently has the lowest average annual bill.

**Table 6.5 Average Residential Bill Comparison
(1998/99 prices for consumption of 220kL per annum)**

Charges		SWC	HWC	Gosford	Wyong
Water	Fixed	80.00	36.60	153.00	176.00
	Usage	187.00	198.22	13.00	12.00
	Total	\$267.00	\$234.82	\$166.00	\$188.00
Sewerage	Fixed	285.60	193.00	371.00	347.00
	Usage	0.00	60.61	0.00	0.00
	Total	\$285.60	\$253.61	\$371.00	\$347.00
Environmental		0.00	40.00	0.00	0.00
Total		\$552.60	\$528.43	\$537.00	\$535.00

It should also be noted in a comparison between Gosford Council and Wyong Council charges, that while Gosford Council currently charges \$40 per assessment for a drainage levy, Wyong Council does not. By way of comparison, Sydney Water charges some of its residential customers \$16 per annum and Hunter Water levies a charge of \$25.05 per annum. With the drainage levy included, Gosford Council's total charges are the highest.

6.2.2 Effect of pricing proposals on the cost of living

This determination maintains prices in nominal terms. This means that there will not be any adverse effects on general price inflation.

6.2.3 Social impacts

By maintaining the majority of charges at 1998/99 levels, Gosford is proposing and the Tribunal is sanctioning the provision of a real reduction in most charges of 1.6 percent to the Gosford community.

6.3 Financial viability

* *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 [S15(1)(c)]*

- * *the impact of 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, [S15(1)(g)]*

6.3.1 Rate of return

Local Government activities, including water and sewerage operations, are not subject to the State Government's financial distribution and tax equivalents regime. Further, Gosford's water and sewerage operations do not make explicit dividend or tax equivalent payments to Council's 'general fund'. In the past, Council has viewed the provision of water and sewerage services as a 'community good' essential for public health and safety and therefore not subject to an explicit target rate of return.

However, the National Competition Policy competitive neutrality principles, which are to apply to 'category one'¹⁶ local government activities, require that prices reflect full cost recovery, including an appropriate rate of return. The COAG Water Resources Policy requires only that urban water services earn a "real rate of return on the written down replacement cost of their assets, commensurate with the equity arrangements of their public ownership". Australian water and sewerage businesses are currently earning an average real rate of return of around 4.4 percent.¹⁷

It should be kept in mind that as Gosford does not pay taxes or dividends, it may not be necessary for it to earn a commercial rate of return on its assets.

The Tribunal has previously encountered difficulties when rate of return is measured. Rate of return measures rely on asset valuation. Methods of asset valuation vary between public and private entities and can be very subjective. The Tribunal has learnt that prices set through strict adherence to rate of return measures can often lead to significant build-ups in cash in the entity being regulated. For these reasons, the Tribunal developed its own asset valuations for Sydney Water in 1996. The resulting valuation was termed the Regulatory Asset Base. The Tribunal will investigate using this methodology for Gosford Council as part of the input to the next major review in 2000.

6.3.2 Financial analysis

Table 6.6 indicates that Gosford's operating costs have increased, on average, by around 6 percent (in nominal terms) over the past four years, while revenue fell by about the same magnitude. However, profit after tax has maintained reasonable levels – mainly due to substantial falls in depreciation and interest costs.

¹⁶ Businesses with annual sales turnovers of \$2million or above (of which Gosford's water and sewerage business is one).

¹⁷ WSAAfacts'98, p 106. ROR formula used by WSSA - Income less OMA costs and replacement cost depreciation, expressed as a percentage of the written down replacement cost of assets.

Table 6.6 Gosford Combined Water and Sewerage Businesses Financial Summary 1993/94 to 1997/98 (\$m of the day)

	1993/94	1994/95	1995/96	1996/97	1997/98	Annual average % change
Total revenue	56	49	47	43	43	-6.3%
Operating expenditure	15	17	18	18	19	5.8%
Earning before interest, depn & tax	41	31	29	25	24	-12.5%
Depreciation	18	15	12	9	10	-14.6%
Abnormal items	-	-	-	-	-	0.0%
Earning before interest & tax	22	16	18	16	14	-10.8%
Interest	28	12	10	9	7	-28.7%
Profit before tax	(6)	5	8	8	7	-
Tax equivalent	-	-	-	-	-	0.0%
Operating profit after tax	(6)	5	8	8	7	-
Total Assets	330	327	501	587	585	15.4%
Total cash & investment (ST & LT)	26	29	3	1	9	-23.7%
Net debt/(cash)	117	93	106	93	71	-11.7%
Operating cash generation	10	18	17	13	20	19.3%
Total capital and reserves	180	198	387	486	499	29.0%
Cash flow from operating activities	10	18	17	13	20	19.3%

Note: the significant change in asset values from 1994/95 to 1995/96 is the result of an asset revaluation from depreciated actual cost to depreciated replacement cost.

The fall in Gosford Council's interest costs are directly related to the reduction in net debt levels over the past four years, as demonstrated in Table 6.7.

Table 6.7 Gosford: Debt Analysis (\$million)

	1993/94	1994/95	1995/96	1996/97	1997/98
Debt and cash position					
Gross debt level (inc overdraft)	143	122	108	94	80
Total cash & investment (ST & LT)	26	29	3	1	9
Net debt/(cash)	117	93	106	93	71

Table 6.8 provides a comparison of major financial ratios between six water and energy utilities. The ratios indicate that Gosford is currently generating more than sufficient funds to cover its primary cash requirements, having the highest funds flow adequacy ratio of the six organisations.¹⁸ It also out-performs the others in terms of its internal financing ratio. Gosford's excellent performance on these two ratios is partly explained by State Government funding of past capital expenditure, the relative youth of its asset base and its consequently moderate capital expenditure program. These ratios are also improved by the fact that Gosford Council is not required to pay dividends.

¹⁸ Definitions of the ratios employed are provided in an Attachment.

Table 6.8 Financial Ratio Analysis (1997/98)

	Energy Australia	Aust Gas Light Co	Sydney Water	Hunter Water	Gosford Council	Wyong Council
Lenders						
Fund flow adequacy	1.1	0.7	1.0	0.7	4.8	2.0
Funds flow interest coverage (times)	5.4	7.8	3.0	7.8	3.5	3.3
Funds flow net debt payback (years)	3.3	3.3	6.2	1.8	4.1	3.1
Internal financing ratio	121%	58%	93%	36%	482%	200%
Pre-tax interest coverage (times)	3.5	7.0	2.8	8.3	2.7	2.0
Total Debt/Total Capital	45%	39%	14%	4%	14%	8%
Regulator						
EBIT/Total revenue	23%	22%	40%	44%	46%	21%
EBITD/Total revenue	32%	28%	54%	64%	68%	49%
EBIT/Funds employed	13%	11%	4%	3%	3%	1%
Shareholder						
EBIT (\$'000,000)	428.3	288.7	491.0	58.5	19.6	7.7
Profit after tax (\$'000,000)	232.2	196.5	231.0	49.0	12.3	8.7

Source: Annual reports and 1998 Annual Information returns.

Notes

1. Information reflects the consolidated view of each organisation.
2. SWC's financial statements' format forms the basis for analysis. The financial statements of the other organisations were reconstructed to allow better comparison.
3. For consistency, the figures for purchases of property, plant and equipment net of capital contributions were used as a measure of capital expenditure.
4. Definitions of indicators are listed in an attachment.

Gosford's pre-tax interest coverage, a measure of how many times profit before tax covers interest payments, is comparable with the majority of the other utilities and has improved substantially in recent years. This reflects Gosford's rapid debt reduction.

The earnings (EBIT) ratios also indicate that Gosford is generating a good level of profits from total earnings. Gosford Council currently has the highest EBIT/Total Revenue.

The following table indicates that on the basis of Gosford's proposal to maintain 1998/99 prices in nominal terms in 1999/00, its main financial ratios will remain fundamentally sound.

Table 6.9 Projected Trends in Gosford's Financial Ratios

	1997/98	1998/99	1999/00
Lenders			
Fund flow adequacy	4.8	2.4	4.6
Funds flow interest coverage (times)	3.5	3.1	4.2
Funds flow net debt payback (years)	4.1	4.7	3.2
Internal financing ratio	482%	235%	459%
Pre-tax interest coverage (times)	2.7	2.5	3.2
Total Debt/Total Capital	14%	12%	9%
Funds from operations/Total Debt	24%	21%	31%
Regulator			
EBIT/Total revenue	46%	38%	38%
EBITD/Total revenue	68%	61%	60%
EBIT/Funds employed	3%	3%	3%
Shareholder			
EBIT (\$ 000)	19,648	15,897	16,291
Profit after tax (\$ 000)	12,324	9,600	11,260
Total dividends and tax (\$ 000)	0	0	0

Table 6.10 indicates that, on the basis of Gosford Council's pricing proposals for 1999/2000, its operating profit will be maintained at a reasonable level, being estimated at \$5.7 million for that year.

Table 6.10 Projected Profit and Loss Account 1998/99 and 1999/00 (nominal dollars)

	1997/98 \$ million	1998/99 \$ million (budget)	1999/2000 \$ million projection
Total Revenue	43.0	41.5	42.5
Operating Expenditure	19.2	21.9	22.6
Earnings before interest, depreciation and tax	23.8	19.7	20.0
Depreciation	9.7	9.5	9.3
Abnormals	-	-	-
Earnings before interest and tax	14.1	10.2	10.7
Interest	7.3	6.3	5.0
Profit before tax	6.8	3.8	5.7
Tax Equivalent	-	-	-
Operating Profit after Tax	6.8	3.8	5.7

Source: Gosford 1998 Annual Information Return.

6.4 Environmental Issues

- * *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. [S15(1)(f)]*

* *considerations of demand management (including levels of demand) and least cost planning, [S15(1)(j)]*

6.4.1 Environmental performance

In its submission, Gosford Council advised that it conducts a regular Review of Environmental Factors (REF) through which the impact on the environment of all water supply and sewerage activities are considered.¹⁹ All construction works are undertaken in compliance with Council's Soil Erosion and Sedimentation Control Policy and the REF.

As a result of the recently completed Healthy Rivers Commission (HRC) investigation into the Hawkesbury/Nepean system, Gosford Council advises that it has developed a program of trial flows and monitoring to evaluate environmental consequences for all resource sources.

Council also regulates trade discharges to the sewer, to protect the sewerage system and the possible contamination of effluents and biosolids produced in the treatment process. Biosolids are subject to a commercial contract and are being reused in agricultural activities.

According to Gosford Council's Corporate Plan, the water and sewerage maintenance plans have both proactive and reactive strategies in place to monitor water and sewer installations and to provide for immediate action in situations such as water main breaks, sewer chokes and sewer pump station failures. Further, the operation of the telemetry system provides 24 hour monitoring of all critical sewer/water installations.²⁰

In its submission, Council advised that it continues to operate its waste disposal system to minimise any impact on the environment. Its sewerage treatment plants are all to secondary treatment standard, meeting better than minimum license discharge requirements. To improve capacity to respond to a system failure, additional telemetry installations are planned to enable early response to incidents in the more environmentally sensitive areas.²¹

In relation to water quality, Gosford Council's Corporate Plan notes that:

Regular testing of dams, weirs, water mains and water filtration systems is undertaken to ensure that water quality is of the required standard. Structural inspections are also carried out on facilities. A policy has been implemented to ensure that backflow of contaminated water into the City's water supply is prevented.²²

6.4.2 Water Conservation

Smart Showerheads

In 1998 Gosford and Wyong Councils entered into a memorandum of understanding with the NSW Sustainable Energy Development Authority (SEDA) to participate in a 'Smart Showerhead' program.²³ The program promotes the benefits of saving energy and water and helping the environment, by providing a financial contribution towards the purchase of the showerheads.

¹⁹ Gosford submission, p 15.

²⁰ Gosford City Council Corporate Plan 1998-2003, p 61.

²¹ Gosford submission, p 14.

²² Gosford Corporate Plan, op cit.

²³ The Smart Showerhead is a water efficient showerhead, rated AAA in accordance with AS3662 (1996).

Current Consumption Levels

In its submission, Gosford Council notes that its consumption “remains as one of the lowest in the country”.²⁴ Table 6.11 shows that in 1998 average residential consumption in Gosford was at a similar level to that in Wyong and the Hunter Valley, and significantly below that in Sydney. Gosford also claimed in its submission that potentially its most significant demand management initiative is the proposal to remove the prepaid water allowance in 2000/01. It is estimating that there may be an initial 10 percent reduction in demand, in response to customers having more control over the size of their water accounts (being based much more on the actual amount of water they use). However, the Tribunal notes that when Council was questioned about this at the Public Hearing, there seemed to be no clear basis for this estimate.²⁵

Table 6.11 Average Residential Consumption (kL per annum)

Gosford City Council	212
Wyong Shire Council	203
Sydney Water	250
Hunter Water	209

Source: 1998 Annual Information Returns (1997/98 data).

6.4.3 Effluent reuse

A consultant’s report commissioned by Council to identify and investigate potential effluent reuse schemes has recently been completed. The report investigated the viability of reducing the volume of effluent being discharged to the ocean. Non-potable urban reuse, agriculture and horticulture reuse, industrial reuse and potable reuse were all considered. The study concluded that the costs were excessive for general urban reuse. However, Gosford Council is pursuing two site specific schemes at golfing facilities – a groundwater impact assessment is currently being undertaken in this regard.

6.5 Standards

* *standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or other wise). [S15(1)(l)]*

6.5.1 Standards of service

Gosford’s submission stated that the Council’s primary objectives, as contained within its City Management Plan, are:

To meet the community’s needs by providing a high quality water supply complying with recognised health standards through the planning and development of water supply schemes whilst assuring appropriate environmental flows and operation and maintenance of existing installations.

and

To transport sewage for disposal by effectively planning and developing works, operating and maintaining existing installations to provide services fit for customers’ purpose in an environmentally sustainable manner.²⁶

²⁴ Gosford submission, p 12.

²⁵ Public Hearing Transcript p 23.

²⁶ Gosford submission, p 2.

At the Public Hearing, Mr Bowditch of the Council explained that the Council's level of services is "very much targeted to those established in the City Management Plan ... (which) goes through a public consultation process and hence it meets the needs of our customers."²⁷ He further noted that during the recent State Government inquiry into the efficiency of both Wyong and Gosford Councils' water and sewerage businesses, it was established that "Central Coast provided a higher level of service than that provided by either Sydney or Hunter".²⁸ Gosford's submission explained that the development of the City Management Plan involves a comprehensive program of public consultation to develop all aspects of future directions - from corporate values to levels of service, programs and budgets required to reflect the community's wishes, while at the same time balancing resources and expectations.²⁹

Table 6.12 demonstrates that Gosford is generally meeting a high level of performance in water quality in terms of the NHMRC Guidelines. However, there has been an increase in the number of water quality complaints in recent times caused by the greater number of mains breaks, which have been well above the target level. Council advises that an increase in main breaks is a common feature of the drought conditions that were experienced in 1997/98 - dry weather causes a shift in soil pressures which in turn can cause breakages in the mains.

The Tribunal notes that the number of water quality complaints in Gosford in 1997/98 was one of the highest for Australian water authorities in 1997/98. Sydney Water received 4 water quality complaints per 1000 properties in 1997/98, Victoria's City West Water recorded 2 while the Northern Territory's Power and Water Authority recorded 12.8.³⁰

Table 6.12 Gosford Water Operating Performance Measures

	1994	1995	1996	1997	1998
Drinking Water Quality					
meet NHMRC Guidelines	yes	yes	yes	yes	yes
% samples meeting minimum requirements					
Physical/chemical	100%	100%	100%	100%	100%
Microbiological	100%	100%	100%	100%	100%
water quality complaints (per 1000 customers)	0.9	3.2	1.7	8.9	8.7
(target)				(1.3)	(1.3)
Standards of Water Supply					
System reliability – mains bursts/100km	19	50	29.9	31.5	44.1
(target)				(22)	(22)
Service complaints other than quality (per 1000 customers)	113	96	0.9	2.4	2.9
Interruption frequency per 1000 properties*	na	na	na	235	290
System water loss (%)	12.5%	12.5%	12.5%	11.7%	10.9%
Average duration of interruptions to supply (hrs)*	na	na	3.68	3.44	3.05
Restoration of service within 5 hours (%) *	na	na	na	83.7	86.7

Source: 1998 Information Return . and *WSAAfacts'98 chapter 9.

Its average duration of interruptions to supply is almost one hour above the WSAA facts industry average of 2.24 hours in 1998 and interruption frequency in Gosford (of 290) is above the WSAA average of 247 per 1000 properties.

²⁷ Public Hearing Transcript, p 9.

²⁸ *ibid.*

²⁹ Gosford submission, p 3.

³⁰ WSAAfacts'98, p 54.

In regard to Wastewater quality of service, Table 6.13 indicates Gosford is operating well within its own targets and is meeting all licence compliance requirements. However, in comparison with the other members of the WSAA, Gosford's average duration of interruptions of 3.2 hours is well above the 2.1 hour WSAA average. The Tribunal also seeks further information on the basis on which Council sets its targets.

Table 6.13 Gosford Wastewater Operating Performance Measures

	1994	1995	1996	1997	1998
Sewer surcharges/chokes					
incidents of sewage overflow/100km	33.8	na	59.1	39.0	48.5
(target)			(67)	(60)	(60)
average response time to chokes (hrs)	na	na	2.72	3.3	3.2
incidents of sewer blockages/100km	44	101	73.2	53.0	48.5
(target)			(75)	(67)	(67)
% restoration of service within 5 hours*			94.8	90.4	95.1
Wastewater service complaints / 1000 customers	na	na	6.8	12.3	14.0
(target)				(15.5)	(15.5)
Licence compliance – sewerage treatment plants	100%	100%	100%	100%	100%
EPA licence compliance-ocean sewerage treatment plants					
biochemical oxygen demand limits	100%	100%	100%	100%	100%
non-filterable residue limits	100%	100%	100%	100%	100%
Effluent reuse (%)	0	2.5	2.5	2.3	0.5
(target %)			(2.5)	(2.5)	(0.5)

Source: 1998 Information Return.

7 BASIS OF THE TRIBUNAL'S DETERMINATIONS

7.1 Maintaining the status quo

In principle, the Tribunal supports the removal of the prepaid water allowance from 1 July 2000. Gosford Council has advised that around two-thirds of its customers would face an increase in charges if the water allowance is removed. While the proposed new structure will be the subject of a separate determination next year, the Tribunal's view is that it is not appropriate to introduce any major changes in 1999/2000. Thus the Tribunal has generally been sympathetic to Council's proposal that most charges remain unchanged for 1999/2000.

Under the established Tribunal methodology for application of the CPI, the relevant CPI figure which would have applied to the 1999/2000 determination would be 1.6 percent. By agreeing to hold prices constant, the Tribunal is effectively applying a CPI-X formula to prices, where X is equal to the CPI. Thus the decision to freeze nominal charges for the water base and usage charges and the residential sewerage charge effectively delivers a real reduction in prices of 1.6 percent to Gosford customers.

For the purposes of the medium term review, the Tribunal will need to be convinced that the proposed new price structure delivers efficient and equitable outcomes for all customers.

Thus, for 1999/2000, **the Tribunal has determined** that charges remain at 1998/99 levels for

- water base and usage charges
- residential sewerage charges
- trade waste services
- recoverable works.

7.1.1 Non-residential sewerage charges

Council advised that non-residential sewerage operating and maintenance costs have increased in recent times due to the impacts of load based licensing and increased sludge disposal costs. Information provided by Council indicated that no individual customer will be significantly worse off under the proposal to adjust the relative charges.

As Gosford's proposal to increase the usage charge and reduce the fixed charge for non-residential sewerage charge is designed to better reflect actual costs and is revenue neutral, **the Tribunal has determined that a revenue neutral adjustment be made to non-residential sewerage charges.**

At the end of 1999/2000, the Tribunal will conduct a compliance check in order to ensure that the charges applied by Council do achieve a revenue neutral result.

7.1.2 Miscellaneous charges

In the 1996 Determination, in relation to miscellaneous charges, the Tribunal stated that "in 1997/98 and 1998/99 these charges may be adjusted by a factor of CPI-1.5 percent". Council applied this formula to charges in 1997/98, but then maintained the 1997/98 nominal charges in 1998/99 (rather than applying a 1.56 percent reduction, as indicated by the CPI-X formula). For 1999/2000, Council proposed to maintain miscellaneous charges at the nominal level it had charged in 1998/99.

The PIAC submission noted that there were considerable differences in some charges for the same service between Gosford and Wyong Councils (as shown in the table below). PIAC was particularly concerned about Wyong Council's proposal to increase the meter testing fee from \$56 to \$150 in 1999/00. In view of this, PIAC recommended that both Gosford and Wyong's miscellaneous charges in relation to water pressure inquiries, special meter readings and meter testing be abolished until the true level of cost involved in supplying these services to consumers is established.

Table 7.1 Miscellaneous Charges (1999/00 Proposals)

	Gosford	Wyong
Meter Testing Fee	\$61 (domestic) \$71 (>25mm, <40mm) \$101 (>40mm)	\$150 (all)
Water Pressure Test	\$81	\$61
Special Meter Reading	\$50	\$45

The Tribunal considered that the concerns raised by PIAC in regard to the variation in level of charge for the same service between the two Councils are valid. In this regard, the

Tribunal is proposing that as part of the medium term review commencing later in 1999, a comprehensive analysis of the cost-basis for all Gosford's (and Wyong's) miscellaneous charges be undertaken. This analysis would include the provision of information from each Council justifying the proposed levels of all Miscellaneous Charges.

It was the intention of the 1996 Determination that Gosford's Miscellaneous Charges reduce in real terms by three percent by 1998/99 from the level listed in the Determination for 1996/97. However, Council only applied the CPI-1.5% formula in 1997/98, choosing to freeze charges in 1998/99 at the levels applied in 1997/98.

Taking this into account, **the Tribunal has determined that the Miscellaneous Charges to apply in 1999/00 be the Charges that would have applied in 1998/99 if the appropriate CPI-1.5% formula had been applied.** This scenario matches with Gosford's proposal to maintain 1998/99 prices in nominal terms in 1999/00, but restores the intended impact of the 1996 Determination on miscellaneous charges.

New Charges

Gosford's proposal included new charges for the services listed in Table 5.3. Council has advised that, by omission, these fees were previously not listed under the Water and Sewerage miscellaneous charges, even though all revenues and costs associated with the services were included in the Water and Sewerage Businesses' audited financial statements. Gosford explains that these charges are designed to meet cost recovery only and that no adjustment has been made to the current fees charged by the Council.

The Tribunal notes that the charges for copies of the water and sewerage reticulation map sheets are reasonable, when compared with Sydney Water's current charge of \$20 for sewerage service diagrams and with Hunter Water's charge of \$10.80 for diagrams of existing sewer services.

The Tribunal has determined that the additional miscellaneous charges listed in Table 5.3 be included in the 1999/2000 Determination at the level proposed by Gosford.

Drainage Levy

In recent correspondence³¹, Gosford advised that the Drainage Levy is designed to raise revenue to meet the costs of installing the drainage infrastructure necessary to meet current design standards and to alleviate flooding problems in many areas. An ongoing program of drainage studies is identifying additional flood areas and the need for additional drainage infrastructure. The planned expenditure on drainage has increased significantly. Further, State and Federal Governments have reduced funding to flood mitigation in recent years, increasing Council's reliance on raising revenue through the levy.

The levy currently raises approximately \$2.2 million per annum for the Council. The proposal to increase it to \$44 (\$22 pensioners) will raise an estimated additional \$200,000 in revenue in 1999/00.

Council has advised that, for 1999/2000 and 2000/01, drainage works expenditure of approximately \$3.3 million is planned each year. Of this, \$650,000 will be funded by government grants, \$2.2 million will be funded by the Levy and \$450 000 will be unfunded

³¹ Letter to the Tribunal dated 20 April 1999.

each year. The proposed increase in the Levy would contribute approximately 50 percent of the unfunded component in 1999/2000.

The Tribunal considers that the Council has not presented an adequate case justifying the planned capital expenditure on drainage works. The Tribunal considers that Council should be able to meet the unfunded portion of the program from overall revenue from water and sewerage operations. Hence, **the Tribunal has determined that the Drainage Levy remain at \$40 per assessment and \$20 per pensioner assessment.**

8 COMPLIANCE

Compliance with the Tribunal determinations is required under Section 18 of the *Independent Pricing and Regulatory Tribunal Act 1992*. Government agencies are required to include details relating to the implementation of a determination within its annual report.

The Tribunal notes the reporting of compliance with the June 1996 determination in Gosford Council's Annual Report to the Minister and will continue to monitor this requirement.

Gosford Council cannot levy any new or additional charges for monopoly services other than in accordance with current determinations, this determination or with the approval of the Tribunal in future determinations.

9 MATTERS FOR CONSIDERATION IN THE NEXT MEDIUM TERM PRICE PATH

As noted above, the Tribunal intends to conduct a major medium term review of Gosford Council's maximum prices for its monopoly water, sewerage and drainage services commencing in June 1999. The Determination from the major review will apply for four years from 1 July 2000. At the same time, similar medium term reviews will be conducted for Wyong Council, Sydney Water and Hunter Water.

9.1 Pricing structure for water

In its submission to this Investigation, Gosford Council indicated that it had resolved to remove the existing prepaid water allowance from 2000/01. Currently, the water base charge includes an allowance of 0.55kL per day for all customers. The usage charge only applies to consumption over 0.55kL per day.

Council's submission advises:

This change in pricing structure will eliminate the cross subsidy between low and high water users and will result in a variation in charges for many consumers based on a revenue neutral change in structure.³²

In principle, the Tribunal supports Gosford's proposed elimination of the prepaid water allowance. It will create a consumption-based, two-part price structure which will provide better price signals. Such a price structure will also comply with the principle behind the COAG Water Resource Policy (1995) requirement for urban water services to adopt a price

³² Gosford Council submission, p 5.

structure comprising an access component and a usage component, where cost-effective, by 1998.

However, it will be necessary for Gosford Council to provide the Tribunal with a detailed analysis of the impacts of the proposed change in price structure on all customer groups, and for such impacts to be acceptable, before the Tribunal formally supports the proposal in the next Determination.

At time of writing, the draft timetable proposed by the Tribunal for the Medium Term Review is as follows:

Item	Date
Release of IPART Issues Paper	August 1999
Submission to be submitted by Councils	December 1999
Public Submissions due	January 2000
Public Hearings	February/March 2000
Determination	May 2000

9.2 Miscellaneous charges

The Tribunal has noted significant differences in the level of charges for the same service between Gosford and Wyong councils. For the next Investigation, the Tribunal will require each Council to provide a cost-based justification of the level of fee for each miscellaneous charge and to explain any significant variation in charges between councils.

9.3 Capital expenditure review

The level of capital expenditure has a strong influence on the revenue requirements, and hence the charges of regulated utilities.

For the purposes of the medium term review, the Tribunal intends to engage a consultant to undertake an assessment and audit of the capital works programs of each Water Authority in order to assess the capital efficiency of each organisation.

9.4 Efficiency benchmarking

For the purposes of the medium term review, the Tribunal will undertake a benchmarking study to facilitate an efficiency analysis of the four water and sewerage authorities.

9.5 Marginal cost analysis

For the purposes of the medium term review, the Tribunal intends to undertake a review of marginal costs applying to the four metropolitan authorities. This will assist in setting the usage charge. It will also provide direction to all authorities on the long term goals for the usage component of charges.

9.6 Third party access

Competition reforms are mandated by COAG. The Tribunal will investigate the issues surrounding methods of access to Gosford's network in line with these requirements and as a general method of increasing efficiency and service.

9.7 Charges on unconnected (vacant) land

The Tribunal has received several complaints from customers in the Sydney Water area about these charges. The tribunal notes that Gosford Council also charges for vacant land. The Tribunal intends to conduct a general review of these charges during the medium term review.

9.8 Form of regulation and seasonal fluctuations

In the medium term price path set for Wyong Council in 1996, the methodology for increases in periodic charges was based on the CPI-X approach. This structure was applied to the average revenue per property of the previous year. Wyong Council has suggested that reliance on revenue per property creates difficulties in complying with the cap when there are fluctuations in demand due to abnormal weather conditions.

The Tribunal will examine this issue for the next major review in 2000.

9.9 Goods and services tax

The Tribunal recognises that a Goods and Services Tax (GST) may impact on the cost of inputs to Council and on the charges levied by Council. There has been some preliminary advice that water and sewerage services may be GST exempt, although the situation is unclear at this time.

The Tribunal will need to consider the impacts of a GST when reviewing charges to apply from 1 July 2000.

ATTACHMENT 1 LIST OF SUBMISSIONS

Organisations and individuals who made submission to this review of fares are listed below. Copies of these submissions can be viewed during business hours (8.45am-5.15pm, Monday to Friday) at the Tribunal's offices, Level 2, 44 Market St, Sydney.

Organisations

Gosford City Council
Public Interest Advocacy Centre

Individuals

Finlayson, M

ATTACHMENT 2 DEFINITION OF FINANCIAL INDICATORS

FINANCIAL INDICATORS	GENERAL DESCRIPTION	DEFINITION/COMPONENTS
Funds Flow Adequacy	Ability to generate funds to cover primary cash requirements	(Net Profit after Tax + Depreciation & Amortisation + Increase in Long Term Provisions) / (Dividends + Capex)
Funds Flow Interest Coverage	How many times funds flow covers interest payments (controlled for depreciation)	Net Profit after Tax + Depreciation & Amortisation + Interest + Tax + Increase in Long Term Provisions) / Interest
Funds Flow Net Debt Pay Back	How many years will it take to payback total debt	(Total Debt – Cash) / (Net Profit after Tax + Depreciation & Amortisation + Increase in Long Term Provisions)
Internal Financing Ratio	Funds retained as a proportion of capital expenditure	(Net Profit after Tax + Depreciation & Amortisation + Increase in Long Term Provisions – Dividends) / Capex
Pre-tax Interest Coverage	How many times profit before tax covers interest payments (including depreciation)	Profit before Interest and Tax / Interest Expenses
Total Debt / Total Capital	Proportion of debt to capital (gearing ratio)	Total Debt / (Total Debt + Shareholders Funds)
Funds From Operations / Total Debt	Proportion of funds from operations to total debt	(Net Profit after Tax + Depreciation & Amortisation + Increase in LT Provisions) / Total Debt
EBIT / Total Revenue	Ratio of profit realised per total revenue	Profit before Interest and Tax / Total Revenue
EBITD / Total Revenue	Ratio of profit plus depreciation per total revenue	(Profit before Interest and Tax + Depreciation. & Amortisation) / Total Revenue
EBIT / Funds Employed	Return on funds employed	Profit before Interest and Tax/ (Total Assets - (Current Liabilities-Current Borrowings))
EBIT	Earnings before interest and tax	Profit before Interest and Tax
EBITD	Earnings before interest, tax and depreciation	Profit before Interest and Tax + Depreciation. & Amortisation



INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES

DETERMINATION UNDER SECTION 11(1) OF THE INDEPENDENT PRICING AND
REGULATORY TRIBUNAL ACT, 1992

Reference No: 98/230
Determination: No 1, 1999
Agency: Gosford City Council
Services: Water supply, sewerage and drainage services

Declaration of government monopoly services under Section 4 of the Act:
Order dated 14 February, 1997 – page 558, Gazette No. 18

Maximum prices determined under Section 14 of the Act to be charged from 1 July 1999 for water, sewerage and drainage monopoly services (excluding water supply and sewerage developer charges for the provision or upgrading of water supply and sewerage services for new developments).

1. 1999/2000 Water Supply Charges

(a) Water Base Charges

The annual water base charges for residential, commercial, industrial and exempt properties are to be the maximum of either the metered base charges applicable to the property or the unmetered fire service base charges:

Size of Service for Water Usage Nominal Diameter (mm)	Metered Base Charge \$	Unmetered Fire Service \$
20	153.00	76.50
25	239.00	119.50
30	392.00	196.00
40	612.00	306.00
50	956.00	478.00
65	1,616.00	808.00
80	2,448.00	1,224.00
100	3,825.00	1,912.50
150	8,606.00	4,303.00
200	15,300.00	7,650.00
> 200	(nominal size) ² *	(nominal size) ² *
	153/400	76.50/400

- The annual water base charge for each unit within a strata development is not to exceed \$153.00.

- The annual water base charge for vacant unconnected land is not to exceed \$153.00.

(b) Water Usage Charges

The maximum water usage charge for consumption up to 0.55 kilolitres per day for all properties is zero.

The maximum water usage charge for consumption in excess of 0.55 kilolitres per day for all properties is 65 cents per kilolitre.

The maximum water usage charge for unmetered fire services is zero.

2. Sewerage Charges 1999/2000

a) Residential

For a residential property, the maximum sewerage charge is \$371.

Residential properties are defined as:

- single residential dwellings
- residential dwelling plus one non-strata flat
- residential strata unit.

b) Non Residential

i) sewer base charge

The maximum charges for non residential sewer base charges are as follows:

Size of Service for Water Usage (mm)	Sewerage Base Charge \$
20	276.00
25	431.00
30	707.00
40	1,104.00
50	1,725.00
65	2,915.00
80	4,416.00
100	6,900.00
150	15,525.00
200	27,600.00
> 200	$(\text{nominal size})^2 * 276.00/400$

ii) sewer usage charges

The maximum charge for non residential sewer usage charges is 70 cents per kilolitre.

The sewer usage charge is multiplied by a discharge factor. The discharge factor is the assessed percentage of metered water consumption of the property which is discharged into the sewer, as determined by Gosford City Council.

3 Drainage Service Charge

The maximum drainage service charge is \$40 per assessment and \$20 per pensioner assessment.

4 Trade Waste Services

The maximum charge for trade waste discharge of excess quantity and acceptable quality is 20 cents per kilolitre. For discharges where quality fails to comply with Gosford City Council's criteria, the maximum charge, additional to other charges, is \$1.30 per kilolitre. An additional non-compliance penalty of \$1.30 per kilolitre will apply for each increment of 1,000mg/litre of Biochemical Oxygen Demand and/or non-filterable residue.

5 Recoverable Works

The maximum amount charged for recoverable works will be the direct cost plus internal overheads in accordance with the charge out rates published annually by Gosford City Council.

6 Other Water Supply and Sewerage Services for which no Alternative Supply Exists

The maximum charges for these services for 1999/2000 are listed in Schedule 1.

7 New or Additional Fees and Charges

The Gosford City Council can not levy any new or additional charges for water supply, sewerage and drainage services other than in accordance with this Determination, or with the approval of the Tribunal in future Determinations.

SCHEDULE 1

GOSFORD CITY COUNCIL MISCELLANEOUS FEES AND CHARGES	(\$)
<i>Water Fees and Charges</i>	
Water supply connection charge	
Connection fee - 20mm diameter water service	298.00
Connection fee - water service in excess of 20mm, actual cost with minimum of	298.00
<i>Metered Standpipe Charge</i>	
Registration fee per annum	357.00
Standpipe deposit per annum	596.00
Water usage for all water drawn from standpipes/kL	0.60
Water pressure enquiry fee	79.00
<i>Water service testing, etc.</i>	
Special water meter reading fee	50.00
Meter testing fee	
domestic meters 20/25 mm diameter	60.00
meters larger than 25mm diameter up to and including 40 mm diameter	69.00
meters larger than 40mm diameter	99.00
Reconnection fee where service disconnected after nonpayment	60.00
GENERAL FEES AND CHARGES	
<i>Water and sewerage main locations</i>	
actual cost, with minimum of (Electricity and Telecommunication Authorities exempt)	84.00
Private works inspection fee	
Private works sewerage/m	5.00
Private works water/m	3.50
Reinspection fee	50.00
<i>Section 27 Certification Fees</i>	
Dual Occupancies, Commercial Buildings, Factories etc.	50.00
Torrens subdivision of Dual Occupancies	99.00
Subdivisions	298.00
Developments without Requirements fee	30.00
<i>Backflow Prevention Fees</i>	
Registration of backflow prevention devices fee	50.00

SCHEDULE 1 (CONTINUED)

SEWERAGE FEES & CHARGES	(\$)
<i>Sewer connection fees</i>	
new sewer (including 1 WC)	99.00
for each additional WC	35.00
alternations (including 1WC)	55.00
for each additional WC	35.00
Units/Villas 1 WC each flat or unit	74.00
+ for each additional WC per unit	35.00
Caravan connection fee	50.00
Sewer connection reinspection fee	50.00
<i>Sewerage drainage plans fees</i>	
Urgent request drainage diagram supplied within 24 hours	60.00
1 copy drainage diagram	30.00
<i>Trade Waste Facilities - reinspection fee</i>	74.00
<i>Sale of Sewer Connection Plan Books Charge</i>	
format 1 - A3, cardboard folder	298.00
format 2 - A3 sheets in plastic pockets in three hard cover plastic folders	397.00
annual charge for monthly updating service (posted monthly)	199.00
NEW CHARGES	
<i>Supply of Water and Sewerage Reticulation Map Sheets/Longitudinal Sections</i>	
A4 photocopy	2.00
A3 photocopy	3.00
<i>Specifications for construction of Water and Sewerage Works by private Contractors</i>	45.00
<i>Building Over Sewer</i>	
Sale of building over sewer specifications	10.00
Concrete encasement supervision	81.00