

WYONG SHIRE 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 2, 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.: 98/231

Report: No 2, 1999

Agency: Wyong Shire 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 Wyong Shire 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.

The Tribunal's determination of the maximum prices for these services is shown in Determination No. 2 attached with this report.

2 THE PRICE DETERMINATION PROCESS

The Tribunal called for pricing proposals from Wyong Shire Council for the period 1 July 1999 to 30 June 2000 for the supply of water supply, sewerage and drainage services. The public and interested parties were invited to make submissions on these proposals and other issues relating to the pricing of these services.

A public hearing was held on 8 April 1999 at the Metro Inn, North Gosford.

A summary of the Wyong Shire Council submission is contained within the body of this report along with summaries of other submissions.

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, Member

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 Wyong Shire Council and other interested parties and at the public hearing. The Tribunal intends to make a medium term price path for Wyong Shire Council from 1 July 2000 so that the period of the price path aligns with the price paths of the other three metropolitan water agencies¹ under the Tribunal's jurisdiction. An annual determination for 1999/2000 is therefore necessary.

Wyong Council proposes that the majority of prices for 1999/2000 remain at current levels in nominal terms. Council supplied analysis of its current and future financial positions and was confident 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.

¹ Sydney Water Corporation (SWC), Hunter Water Corporation (HWC) and Gosford City Council.

Council's performance over the last five years has been strong (see section 6 "Issues considered under Section 15"). The Tribunal expects that Council will be able to maintain that performance in 1999/2000 under the proposed pricing levels.

Of necessity, the Tribunal will conduct a rigorous and in-depth analysis of Council's operations for the next review in 2000 because it will set a price path for a number of years. In addition, many of the issues impacting on Wyong Council are common to the other three water utilities. The Tribunal therefore has deferred examination of those issues until the 2000 review so that an industry wide study can be conducted.

Many of the reforms undertaken in industry in Australia in recent times have been driven by National Competition Policy (NCP). NCP calls for the adoption of consumption based pricing principles, full cost recovery and the removal of cross subsidies. While Sydney Water Corporation (SWC) and Hunter Water Corporation (HWC) have adopted pricing structures containing an emphasis on consumption based pricing, the two Councils have a structure that only charges on a usage basis when usage is above a 'pre-paid' amount. The Tribunal supports, in principle, two part pricing with a usage component. In its submission for this review, Council indicated its support for a two part pricing regime. This issue will be examined for the major review in 2000. The Tribunal will require information from Council on the potential impacts of any change in pricing structure before coming to a decision.

For these reasons, the Tribunal agrees with Council that prices for 1999/2000 should, in general terms, remain at the levels of 1998/1999.

The main features of this determination are:

- periodic water and sewerage charges are to remain constant in nominal terms
- miscellaneous charges are to remain constant in nominal terms
- the Tribunal has accepted Wyong Council's proposals for the addition of certain new or previously unregulated miscellaneous charges to the current listing
- the Tribunal rejects Wyong Council's proposal for a phased removal of the 85 percent cap on developer charges.

4 REVIEW OF PREVIOUS PRICE PATH

In June 1996, the Tribunal made a determination that set prices for Wyong Shire Council for the period 1 July 1996 to 30 June 1999. The main features of that determination were:

- Overall periodic water and sewerage charges to be reduced by 5 percent in nominal terms from 1 July 1996 and 1.5 percent a year in real terms in the subsequent two years.
- The adoption of the net present value methodology for the calculation of developer charges.
- Continued phased introduction of a cost reflective two-part tariff for non-residential sewerage charges.
- Continued phased adoption of cost reflective charges for the pump out of effluent from septic tanks and chemical closet removal services.

- Continued increases in sewerage charges for non-strata titled units to bring them to the same level as for strata units. The maximum increase in charges for a single unit to be limited to \$50.00 per year.
- Continued phased increases in sewerage charges to non-strata titled retirement villages to 20 percent of the charge for a residential assessment.
- These latter two charges represent a continuation of previous determinations. They are interim measures pending development of a common approach by Gosford and Wyong Councils.
- The Tribunal had concerns over the Council's capital expenditure projections, particularly those towards the end of the decade.

The price path set in 1996 will finish on 30 June 1999. As a result of the medium term price path:

- Overall periodic water and sewerage charges have been reduced in line with the determination.
- The developer charges methodology based on net present value principles has been implemented.
- A phased introduction of a cost reflective two part tariff for non-residential sewerage charges has proceeded.
- A phased adoption of cost reflective charges for the pump out of effluent from septic tanks and chemical closet removal services has proceeded.
- The maximum sewerage charge for single residential properties and for non-strata titled units in 1998/99 is \$347.00.
- The sewerage service charge for a single residential property in 1998/99 is \$347.00. The charge for non-strata titled retirement villages is \$70.00 for each unit or 20 percent of the single residential charge.

Wyong Council, in its submission to the 1996 medium term path determination, forecast that capital expenditure for the 1997/98 year would be \$22.8 million. Actual capital expenditure for the 1997/98 year was \$10.3 million.

5 SUBMISSIONS

5.1 Submission by Wyong Shire Council

5.1.1 Pricing

Wyong Council proposes a 1.5 percent real reduction in prices for 1999/2000, assuming an inflation rate of 1.5 percent. In 1996, the Tribunal made a determination for the calculation of developer charges. Calculations are based on a methodology. The determination requires Wyong Council to set its developer charges at 85 percent of the amount calculated under the methodology. Council proposes a phased elimination of the 85 percent cap for developer charges over the next three years.

Council states that it has achieved the Tribunal's targets set in the 1996 determination of reductions in prices of 5 percent nominal for 1996/97 and 1.5 percent real for the following two years. This has been achieved through efficiency improvements, lower demand and reduced borrowing costs.

5.1.2 Pricing issues

Council proposes the replacement of the current 200kL per annum pre-paid water allowance from 1 July 2000 with a \$103 fixed charge and a usage charge of 65c/kL (increasing by 5c per annum to 80c-90c). This change is conditional upon continuation of the same level of pensioner rebates. Council provides a 50 percent rebate on the availability charge to pensioners and receives a 55 percent reimbursement from Government based on the availability charge. If the availability charge is reduced, either pensioners or the Council would be out of pocket unless legislation is changed. Projected figures show average non-pensioner users would pay \$57.00 per annum more under this scenario.

5.1.3 Financial issues

Council, through its submission:

- supplied 9-year forecasts for financial statements and capital expenditure which show a marginal decrease in debt
- seeks significant increases for 1999/2000 in meter testing fees and effluent and chemical closet services charges due to increased costs
- will seek to address cross subsidies in water fire service charges, water charges for sporting bodies and sewerage charges for properties other than residential 20mm services, in the 2000 medium term price path review
- is concerned with the fluctuations in average revenue per property measures when there are significant seasonal variations
- is concerned with the 0 percent discount rate and 85 percent cap on developer charges.

5.1.4 Demand management

Council comments that average residential water usage is 212 kL per annum. Factors that impact or may impact on demand management are:

- council's adoption of a 'Smart Showerhead Program' with the Sustainable Energy Development Authority (SEDA)
- an effluent re-use scheme with Vales Point Power Station that has been developed but is dependent on external financial assistance
- meters have been installed in significant water usage areas such as parks; unaccounted for water use has been reduced from 15 percent in 95/96 to 10 percent
- various promotions and advertisements have been undertaken to educate the public of the necessity for water conservation.

5.1.5 Efficiency

In May 1998, Council adopted a policy for Workplace Reform and Continuous Improvement for the medium term. The policy provides a process where each Council operation is exposed to comparative testing and, if necessary, the exploration of other forms of service delivery such as contracting out. The process is predicted to continue the improvement in labour productivity started in 1990 with improvements of 1.5 percent per annum.

5.1.6 Environmental performance

All water and sewerage functions comply with relevant regulatory requirements including those of the Environmental Protection Authority (EPA). All sewage is treated to secondary standard prior to ocean disposal of the effluent; all sewerage sludge is composted for re-use.

Other important measures include:

- safeguards against sewerage overflows have been progressively improved
- council has in place a strict trade waste policy
- council has progressively increased protection of catchment areas.

5.1.7 Structural reform

In 1997, the NSW government reviewed the arrangements for the delivery of water and sewerage services on the Central Coast. This review arose because of obligations on government arising from National Competition Policy and because of the need for assurance that Government grants to the combined Gosford/Wyong Scheme have been invested in the best interests of customers and tax payers.

As a result of that report, the government decided that:

- structural change to the water and sewerage operations of the two Councils was not required
- the government would accept the Councils' proposals to strengthen coordination and moves to adopt the COAG reform agenda
- the government would encourage and facilitate improvements, should the Councils wish to pursue them, including the appointment of an independent chairperson and two additional independent professional directors to the joint committee of the water supply joint authority.

Since that review, an independent chairperson has been appointed and the role of the authority has been expanded to include both water and sewerage.

5.2 Other submissions

5.2.1 Public Interest Advocacy Centre (PIAC)

PIAC recommends that:

- the Tribunal adopt price cap regulation with respect to water supply to Gosford and Wyong residential consumers
- in regard to the proposal to remove the prepaid water allowance
 - the Tribunal consider the impacts on low-income tenants; and
 - support be given to Wyong'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
- Wyong's proposal to increase the meter testing charge by \$94 be rejected.

5.2.2 Mr M G Finlayson

Mr Finlayson is a Gosford City resident. He considers the proposals by Gosford and Wyong Councils for this period to be fair and reasonable.

However, he has concerns over the impacts of the intended removal by each Council of the pre-paid water component in 2000. He considers the Councils' proposals will bolster the Councils' financial positions, contrary to the stated revenue neutral approach.

He suggests 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

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 on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body [s15(1)(h)]*
- * *the need to promote competition in the supply of the services concerned [s15(1)(i)]*

Utilities' costs 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 are from the replacement of existing assets or the commissioning of new assets to expand or enhance services. The Tribunal emphasises efficiency so that costs are minimised, and encourages competition so that regulation can be minimised.

6.1.1 Operating costs

In contrast to other water agencies, Wyong Council's operating costs in real terms have not decreased overall since 1993/94. Although Wyong's costs have reduced in some years, they have increased in others. There has been no trend reduction.

In the period of 1994, Wyong changed its reporting interval from a calendar year basis to a fiscal year basis. The figures for 1993/94 were developed therefore after some estimation and averaging. The high figure for interest in 1993/94 may reflect this fact, but also the reduction in debt from \$76 million to \$49 million. The high figure for labour costs in 1993/94 may also reflect the absence of employee provisions as a separate line item.

Other than an increase in depreciation expense, Wyong Council forecasts little change in operating and total expenditure for 1998/99 and 1999/2000 and a reduction in operating cost per property of 2 percent real a year from 1997/98 to 1999/2000. The Tribunal took note of this in deciding to keep prices constant in nominal terms in this determination.

Table 6.1 Expenditure trend (97/98 \$m)

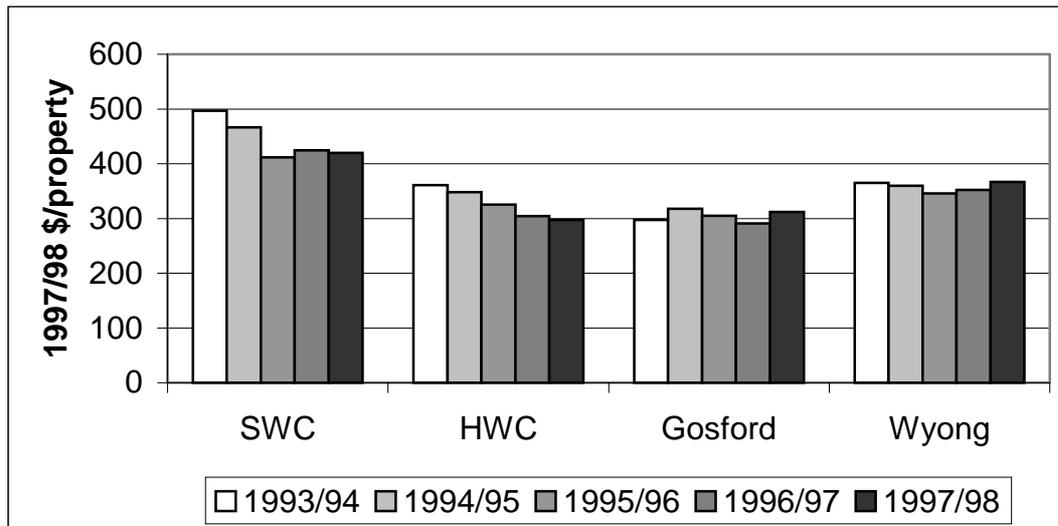
	1993/94 Actual	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Budget	1999/2000 Projection
Labour	7.0	5.0	6.3	7.0	7.3	7.2	7.2
Consultants,hire services	0.5	0.5	0.4	0.5	0.7	0.7	0.7
Materials, electricity	4.3	3.7	3.4	3.6	4.3	4.3	4.3
Provisions	0.0	3.0	2.2	2.3	3.6	3.6	3.6
Other	5.4	5.9	5.7	4.5	3.1	3.1	3.1
Total operating costs	17.2	18.2	18.0	17.9	18.9	18.9	18.9
Depreciation	8.5	9.9	8.9	9.8	9.9	10.4	10.4
Interest	24.4	6.7	5.5	4.5	3.9	3.7	3.2
Total expenditure	50.0	34.8	32.4	32.1	32.7	32.9	32.5
No. of employees	203	203	203	203	203	203	203
Properties serviced	92,491	94,828	96,763	98,911	100,729	102,760	104,900
Operating cost/property	365	373	364	352	367	359	352

Source: Annual Information Return from Wyong Shire Council.

6.1.2 Efficiency

The effect of the historical trend in operating costs is important when considering the partial measure of efficiency, operating costs per property. By this measure, although the number of properties serviced by Wyong Council has risen, the rise in operating costs sees no increase in Wyong Council's efficiency. The graph below reveals that Sydney Water Corporation and Hunter Water Corporation have increased their efficiencies. In absolute terms, Wyong Council lies behind Hunter Water Corporation and Gosford City Council.

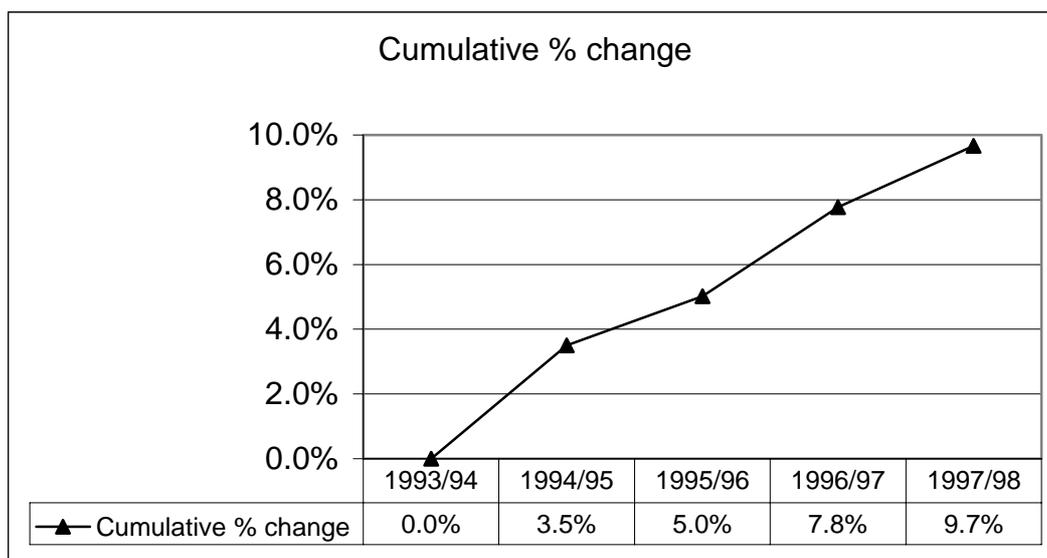
Figure 6.1 Operating costs/property (1997/98 \$)



Source: Annual Information Return from Wyong Shire Council.

The following graph (Figure 6.2) shows the change in labour productivity from 1993/1994 based on the partial measure of the number of properties provided with water services compared to the number of employees. Employee numbers have remained static while there has been an increase in the number of properties serviced. There has been no increase in contracting costs so the increased workload has been taken up by Council staff. The graph shows the cumulative increase in efficiency in Wyong's labour force.

Figure 6.2 Change in number of properties with water services/number of employees



Source: Annual Information Return from Wyong Shire Council.

Figures 6.1 and 6.2 show that while Council's labour force is more efficient in terms of the amount of work done, the operating costs associated with that work have increased.

In its submission², Wyong Council comments that it is addressing efficiency issues by adopting a policy that provides for Workplace Reform and Continuous Improvement for the medium term. The policy addresses the need for continuous improvement resulting from:

- an increasing demand for works within a tight financial position
- the recommendations of the recent State government enquiry into Council's water and sewerage services
- the National Competition Policy
- the increased use of comparative testing, competitive tendering and contracting out by local government.

The policy provides a process whereby each area of Council's operations is exposed to comparative testing to establish its relative efficiency within the market place. Where existing functions prove to be uncompetitive, other options of service delivery including competitive tendering and contracting out will be explored. The process of comparative testing and continuous improvement will continue for the next two to three years. This process will continue initiatives commenced in 1990 to achieve labour productivity improvements in the order of 1.5 percent per annum.

² Wyong Shire Council, Submission to the Independent Pricing and Regulatory Tribunal of NSW, *Determination of Prices for Wyong Shire Council for 1999/2000*, May 1999.

6.1.3 Capital expenditure

The trend in capital expenditure shows a significant projected increase in 1998/99 and 1999/2000. The increase is more marked for sewerage works than for water works.

Table 6.2 Capital expenditure (1997/98 \$m)

	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Budget	1999/00 Projected
System assets					
- water	4.0	1.7	2.5	3.6	4.1
- wastewater	2.2	1.7	3.8	6.0	7.2
- stormwater	1.7	0.6	2.4	2.4	2.6
Sub total	7.9	4.0	8.7	12.0	13.9
Assets free of charge	3.7	5.8	1.6	3.0	3.0
Total capital expenditure	11.7	9.8	10.3	15.0	16.9

Source: Annual Information Return from Wyong Shire Council.

However, utilities traditionally have problems predicting capital expenditure. Levels of population growth, community standards and environmental requirements are difficult to forecast. For example, Wyong Council, in its submission to the 1996 medium term path determination, forecast that capital expenditure for the 1997/98 year would be \$22.8 million. The actual figure was \$10.3 million.

Table 6.3 Capital expenditure projections in Council's submission to 1996 determination and actual capital expenditure (1997/98 \$m)

	1995/96 Projected	1996/97 Projected	1997/98 Projected	1995/96 Actual	1996/97 Actual	1997/98 Actual
Water	2.1	3.4	11.4	4.0	1.7	2.5
Sewerage	4.1	5.0	6.9	2.2	1.7	3.8
Drainage	1.6	2.0	2.4	1.7	0.6	2.4
Free assets	3.7	3.7	2.1	3.7	5.8	1.6
Total	11.6	14.1	22.8	11.7	9.8	10.3

Source: Annual Information Return and Council submission to 1996 determination.

During the public hearing in April 1999, Wyong Council commented³ on a number of issues that have influenced past capital expenditure levels and may influence future levels.

- Changing environmental and community standards are driving costs for augmentation of existing assets and commissioning of new assets.
- Although Council's systems are relatively new, refurbishment may be needed for some electrical works and in some areas of water and sewerage equipment.

³ Transcript, Hearing Volume No 1, April 8, 1999.

- Deferments of major water capital works have been possible because population growth rates have been less than expected. Expenditure on water works generally has been less than expected because of the success of demand management policies and the resulting lower consumption levels.
- Because of drought conditions over a number of years, expenditure on sewer pump stations has been deferred because infiltration type works were adequate to meet standards. However, the current rainy weather has shown that this strategy has limits and accelerated capital expenditure may be required in the future.
- The Healthy Rivers Commission of NSW has conducted an inquiry into the Hawkesbury Nepean River System. Investigation and testing in the Wyong area is ongoing. There are a range of possible actions that Council may need to undertake as a result. They have the potential for significant impacts on expenditure, but the likelihood and scale of these actions is unknown at this time.

The Tribunal notes Wyong Council's advice that maintenance of annual charges in nominal terms will be sufficient to fund capital works for 1999/2000. The Tribunal, as input to the next major review in 2000, will conduct a thorough investigation of the capital expenditure needs of Wyong Council.

6.1.4 Competition

In 1995 the Council of Australian Governments (COAG) agreed to implement a national reform package. A general objective of the package is:

... bringing about a more competitive and integrated national market, and more efficient and effective arrangements for the delivery of services in areas of shared responsibilities.⁴

Anti-competitive conduct in Australia is regulated by Part IV of the Trade Practices Act and the Competition Codes of each state and territory, which mirror Part IV. Local councils are caught under that umbrella. National Competition Policy reforms also call for the adoption of consumption based pricing principles, full cost recovery and the removal of cross subsidies. The Tribunal will investigate methods of introducing more extensive, consumption based pricing principles for the next major review in 2000.

Methods of introducing competition into monopoly water and sewerage services are also promoted as part of National Competition Policy. Wyong Council is seeking to address this reform by the implementation of its Workplace Reform and Continuous Improvement policy. An important means of introducing competition is to grant access to monopoly infrastructure networks to third parties wishing to provide services. However, in Australia so far, there have not been any formal access applications for water infrastructure under Part IIIA of the Trade Practices Act.

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 impacts of the determination and recommendations [s15(1)(k)]*

⁴ Council of Australian Governments, *Communique*, 25 February 1994.

6.2.1 Pricing

Wyang Council has made significant progress in eliminating price anomalies between different customer classes:

- property values based charges have been eliminated
- there is some usage based pricing elements within the regime of excess water usage charges
- non-residential sewerage charges use two part tariffs which include a usage component based on the estimated volume of metered water discharged into the sewerage system.

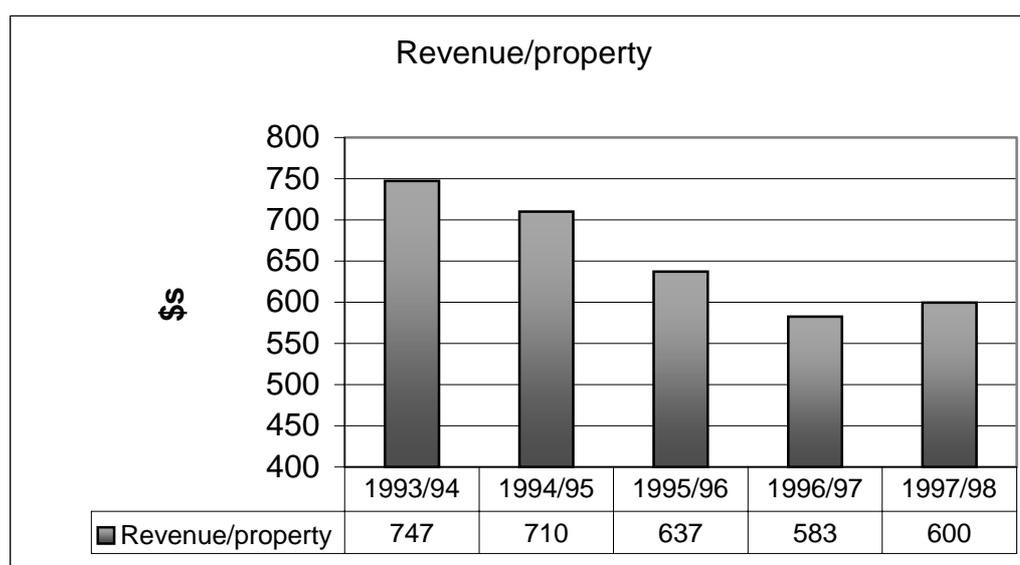
However, the Tribunal notes that Wyong Council still maintains a prepaid water allowance. For the next major review in 2000, the Tribunal intends investigating further means of eliminating anomalies between customers. In particular, a two-part tariff for water use will be investigated. The emphasis of this form of pricing is to recover costs based on usage of water. Wyong Council, in September 1998, resolved to propose as following to the Tribunal at the review in 2000:

... commencing from July 1 2000 Council has resolved to adopt a pricing structure, which eliminates the water allowance and provides for a 65 cents per kL usage charge.⁵

6.2.2 Average revenue per property and price reform

Pricing policies and demand management incentives have resulted in a decline in revenues on a per property basis. Figure 6.3 illustrates the reductions in tariff revenues in real terms. Since 1993/94 there has been a reduction of \$147 per property or 20 percent. The downward trend in revenue has reversed somewhat in 1997/98 but this was mainly a result of increased consumption in that year because of ongoing drought conditions.

Figure 6.3 Average tariff revenue per property (1997/98 \$)



Source: Annual Information Return from Wyong Shire Council.

⁵ Wyong Shire Council, submission to the Independent Pricing and Regulatory Tribunal of NSW, *Determination of Prices for Wyong Shire Council for 1999/2000*, May 1999.

6.2.3 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.

6.2.4 Social impacts

The Tribunal monitors the effects on consumers of its pricing determinations. This determination provides for a real decrease in prices. This will be of benefit to all consumers.

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 NSW [s15(1)(c)]*
- * *the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets [s15(1)(g)]*

6.3.1 Financial performance and position

Although this determination does not allow any real increase in prices, the Tribunal agrees with the sentiments in Wyong Council's submission⁶ that maintenance of the current level of prices will enable Council to fulfil its commitments for the coming year. The Tribunal has confidence in this conclusion because of the strong financial position of the Council.

Table 6.4 gives a summary of Wyong Council's financial performance over five years in nominal terms. The significant items are trading revenue, profit after tax, borrowings and operating cash flow. Profit after tax for 1997/98 was boosted by an abnormal item consisting of adjustments to the value of land and infrastructure assets. These adjustments had no effect on cash flows. The Tribunal's determinations have kept revenue figures stable in nominal terms, but profit after tax remains strong. Importantly, positive cash flows have enabled Council to consistently reduce its debt levels with a positive impact on interest. This strong performance should continue in 1999/2000.

Table 6.4 Financial performance (\$m of the day)

	1993/94	1994/95	1995/96	1996/97	1997/98
Trading revenue	31.3	31.8	30.4	29.2	30.9
Operating expenditure	15.6	17.0	17.7	17.8	18.9
Interest	22.1	6.3	5.4	4.5	3.9
Capital contributions	8.7	10.1	5.8	6.4	5.3
Abnormal items	0.0	0.0	0.0	0.0	4.9
Profit after tax	3.5	13.9	9.1	7.7	13.4
Property plant & equipment	252.8	441.8	437.0	503.5	504.2
Borrowings	75.9	49.4	45.0	37.1	28.5
Operating cash flow	n/a	18.9	11.4	11.6	8.1

Source: Annual Information Return from Wyong Shire Council.

⁶ Wyong Shire Council, submission to the Independent Pricing and Regulatory Tribunal of NSW, *Determination of Prices for Wyong Shire Council for 1999/2000*, May 1999.

A clear indication of Council's strong financial position is shown in Table 6.5. Wyong Council has been able to direct funds to reduce net debt from \$77 million in 1993/94 to \$27 million in 1997/98.

Table 6.5 Trend in net debt (\$m of the day)

	1993/94	1994/95	1995/96	1996/97	1997/98
Current borrowings	10.7	15.8	10.3	11.1	12.7
Non current borrowings	75.9	49.4	45.0	37.1	28.5
Total borrowings	86.6	65.3	55.3	48.1	41.3
Short term investment	9.6	13.3	12.3	14.1	14.1
Net debt	77.1	52.0	43.1	34.0	27.2

Source: Annual Information Return from Wyong Shire Council.

A comparison of Wyong Council with other water agencies as well as the private sector gas distributor Australian Gas Light Company and the public sector electricity distributor EnergyAustralia provides further evidence of the strength of Wyong Council's financial position.

The ratios in Table 6.6 are based either on a cash flow basis or a profit and loss basis. While the Tribunal has regard for rate of return ratios, it is concerned that reliance on this indicator alone may not provide a reliable basis for price determination. Rate of return calculations are highly dependent on the valuation of the asset base, and the subjectivity of valuation methodologies requires that other measures of performance are used in concert with rate of return. In particular, the Tribunal utilises ratios based on cash flow because these bring an alternative view of performance not distorted by accounting measurement problems.

Funds flow adequacy measures the ability to fund financial distributions and capital expenditure. Wyong Council is strong with an advantage of not making distributions to government. The strong internal financing ratio, comparing funds flow to capital expenditure, mirrors this result.

Measures of ability to repay debt and interest are also strong. Wyong's funds flow interest coverage and funds flow net debt payback compare favourably with both private and public entities.

Ratios affected by asset valuation (EBIT to total funds employed, EBIT to total revenue) for Wyong Council and the water utilities in general are usually low when compared to private sector industries with large infrastructure networks. However, the comparison may be distorted by the differing approaches to asset valuation. This normally results in significantly higher asset values for the publicly owned water agencies. Nonetheless, the water industry's ratios lag behind those of EnergyAustralia as well, possibly reflecting:

- the relative capital intensity of the two industries
- past 'social' pricing in the water industry, ie efforts by Government to use pricing policy to pursue social equity objectives
- the greater revenue certainty (ie lower revenue risk) in the water industry
- the long lives of many water industry assets.

Wyong Council's ratios based on earnings before interest and tax (EBIT) particularly reflect the problems with asset valuation. Wyong Council's ratios of EBIT to total revenue and EBIT to funds employed are weaker than the other water utilities because of comparatively higher depreciation charges. There is a marked difference in the ratios EBIT/total revenue and EBITD/total revenue for AGL (22 percent and 28 percent respectively) and for Wyong Council (21 percent and 49 percent respectively).

Table 6.6 Performance analysis for 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 (tin)	5.4	7.8	3.0	7.8	3.5	3.3
Funds flow net debt payback (ye)	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.

Notes

1. Information reflects the consolidated view of each organisation.
2. The format of Sydney Water's financial statements forms the basis of comparison.
3. Measures of revenue exclude capital contributions, measures of earnings include capital contributions.
4. For consistency, the figures for purchases of property, plant and equipment net of capital contributions are used as a measure of capital expenditure.
5. Definitions of indicators are listed in Appendix 1.

6.3.2 Rate of return and asset valuation

Unlike government owned, corporatised water and sewerage service providers, local council water utilities are not subject to the financial distribution requirements of the NSW Government. That is, they do not pay dividend or tax equivalents. As well, Councils do not transfer equivalents of such distributions from their water and sewerage funds into their general council funds. At the public hearing in April 1999, Wyong Council were asked where any such surpluses are so directed. Wyong Council commented:⁷

I think it is fair to say that the rate of return, instead of those funds going elsewhere – I think we are all aware that Sydney and Hunter pay a significant profit to the State government, but that profit, when we are talking about “profit”, is going back into our ratepayers in the form of lower charges.

⁷ Transcript, Hearing Volume No 1, April 8, 1999, p 49.

The Tribunal has encountered difficulties in measuring the rate of return. As stated in section 6.3.1, 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 Wyong Council as part of the input to the next major review in 2000.

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 Ecologically sustainable development

In its submission to this determination, Council reported on its environmental performance:

- Water and sewerage functions comply with all relevant regulatory requirements including Environmental Protection Agency requirements for sewage effluent and sludge disposal.
- All sewage is treated to secondary standard prior to ocean disposal of the effluent; Council has implemented an outfall monitoring program undertaken by the University of Newcastle; studies indicate that the effluent outfalls are having no detrimental effects on the marine environment.
- Since January 1999 all sewage sludge is being composted for re-use.
- Protection against sewage overflows has been improved by:
 - 80 percent of sewage pumping stations being connected to the Council telemetry system
 - the purchase of back up electricity supply for sewage pump stations
 - plans for the upgrading of ten pump stations over next five years.
- Protection of the water catchment areas has been addressed by:
 - adoption of a land planning strategy with employment of a full time catchment management officer
 - investigation of environmental impacts of turf farming
 - development of a river flow assessment program with the Healthy Rivers Commission.

6.4.2 Demand management

One of the results of an emphasis on usage pricing utilised by both Sydney Water Corporation and Hunter Water Corporation has been a decrease in average residential water consumption. Average consumption in the Wyong area has also been decreasing and usage statistics are comparable with best industry practice. Average annual residential water usage in 1997/98 was 212 kL per annum. This compares with figures of 286 kL per annum

for Sydney Water and 223 kL per annum for Hunter Water⁸ (although Sydney Water's area encompasses some dry areas away from the coast).

Council is investigating opportunities for effluent re-use with local golf clubs and with Vales Point Power Station. However, the power station scheme is dependent on Government financial assistance. Approaches have been made to Government.

Council has also encouraged residents to conserve water with advertising campaigns, promotions, presentations to schools and community groups and the adoption of a program of financial incentives for the use of water efficient showerheads.

6.5 Standards

* *standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise) [s15(1)(l)]*

In its submission,⁹ Wyong Council commented that Council's water and sewerage functions comply with all relevant regulatory requirements including EPA requirements for sewage effluent and sludge disposal.

Table 6.7 shows that Council has met its customer complaint targets for water service complaints, other than water quality, and for wastewater service complaints. Water quality complaints seem to be rising.

The two corporatised water suppliers, Sydney Water and Hunter Water, have targets for standards set through an operating licence mechanism with the State government. The process also includes a 'Customer Contract' mechanism that sets targets for customer service standards. Wyong Council is scrutinised through the process of public consultation and display of its city management plans. The Tribunal will emphasise service standards for the major review in 2000.

⁸ Wyong Shire Council, submission to the Independent Pricing and Regulatory Tribunal of NSW, *Determination of Prices for Wyong Shire Council for 1999/2000*, May 1999.

⁹ Wyong Shire Council, submission to the Independent Pricing and Regulatory Tribunal of NSW, *Determination of Prices for Wyong Shire Council for 1999/2000*, May 1999.

Table 6.7 Standards of service - Compliance

	1993/94	1994/95	1995/96	1996/97	1997/98
Drinking Water quality					
1994 draft NHMRC guidelines	yes	yes	yes	yes	yes
Water quality complaints (per thousand customers)					
- target	5	5	5	5	5
- complaints	2.5	2.5	4.1	5.8	7
Standards of water supply					
Water pressure					
% of properties with water pressure below 20m as measured at the service meter					
- target	0.5%	0.5%	0.5%	0.5%	0.5%
- actual	<0.1%	<0.1%	<0.1%	<0.1%	<0.1%
Water service complaints other than water quality (per thousand customers)					
- target	5	5	5	5	5
- complaints	2.5	2.5	0.75	3.5	3.54
Sewer surcharges/chokes					
No of properties free of overflow					
- target	100%	100%	100%	100%	100%
- actual	>99.9%	>99.9%	>99.9%	>99.9%	>99.9%
Wastewater service complaints (per thousand customers)					
- target	25	25	25	25	25
- complaints	8.7	9.4	7.1	6.3	9.3
Wastewater Treatment/Discharge					
EPA licence compliance - ocean sewage treatment plants					
Biochemical Oxygen Demand (BOD) limits					
- target	100%	100%	100%	100%	100%
- actual	100%	100%	100%	100%	100%
Non-filterable Residue (NFR) limits					
- target	100%	100%	100%	100%	100%
- actual	100%	100%	100%	100%	100%

Source: Annual Information Return from Wyong Shire Council.

7 BASIS OF THE TRIBUNAL'S DETERMINATION

In 1996 the Tribunal set a medium term price path for Wyong Shire Council to end on 30 June 1999. The decision to set a price path rather than continue the practice of annual determinations was made because it would enable Wyong Council to plan its operations more effectively and efficiently due to the greater certainty of revenue streams. The Tribunal still believes in the advantages of price paths but has decided that this determination will be made for the period of 1 July 1999 to 30 June 2000.

Price paths have been set for the other three metropolitan water utilities under the Tribunal's jurisdiction. Like Wyong Council, Gosford City Council's price path ends on 30 June 1999 and an annual determination has been made for 1 July 1999 to 30 June 2000.¹⁰ The price paths for Sydney Water Corporation and Hunter Water Corporation will finish on 30 June 2000. The Tribunal has decided that there are advantages in aligning the periods of the price paths of the four water utilities. This enables the application of solutions to problems and issues that are common to the four utilities. For this reason, the Tribunal anticipates that it will set medium term price paths for the four agencies from 1 July 2000.

Extensive analysis and investigation will of necessity precede the medium term price path for Wyong Shire Council in 2000. Some of the wider issues that the Tribunal wishes to address will therefore be investigated as part of the background analysis for the major review in 2000.

The Tribunal, after reviewing the submission from Wyong Council and conducting analysis of Council's financial position, has decided to make this determination, in general terms, on the basis of continuance of the 1998/1999 pricing levels. The Tribunal also notes in 1997/98 that, Council voluntarily reduced its prices by 4 percent nominal. This coincided with the time of the review of water and related services by State government and reflected reductions in interest rates.¹¹

Wyong Shire Council submitted a series of pricing proposals to the Tribunal for this annual determination. The following sections discuss those proposals and the Tribunal's response.

7.1 Water and sewerage periodic charges

For the price path set in 1996, Council was required to reduce overall periodic water and sewerage charges by 5 percent in 1996/97 and by 1.5 percent in 1997/98 and 1998/99. Prices have been reduced by those levels except for 1997/98 when Council voluntarily reduced prices by 4 percent.

Council comments that the reductions were made possible by:

- Continued efficiency improvements greater than anticipated at the time of the 1996 determination.
- Deferment of significant capital works because of successful demand management strategies.
- Lower borrowing costs because of lower official interest rates.

The Tribunal notes that the extra reduction in 1997/98 did not flow through to the calculation of developer charges. Council has commented that there was no flow through because the savings arose as a result of savings in borrowing costs only. Borrowing costs do not form part of the reduction amount in the developer charges methodology.

For 1999/2000 Council proposes that overall periodic water and sewerage charges be kept constant in nominal terms. This means that charges will not escalate with any increases in the cost of living. The Tribunal accepts this proposal.

¹⁰ Independent Pricing and Regulatory Tribunal, Determination No 1, *Gosford City Council Prices of Water Supply, Sewerage and Drainage Services*, May 1999.

¹¹ NSW Micro-economic and GTE Reform Committee of Cabinet, *Review of the Future Provision of Water and Related Services in the Gosford and Wyong Areas*, May 1997.

Table 7.1 illustrates the effect of pricing on an average residential customer's bill over the three years of the price path, together with the forecast bill for 1999/2000. The calculations are based on a consumption of water of 220 kLs per annum.

Table 7.1 Average residential bill

	1996/97	1997/98	1998/99	1999/2000
Water allowance	176	176	176	176
Water usage	12	12	12	12
Sewerage	378	356	347	347
Total	566	544	535	535

Source: Wyong Council submission to the 1999/2000 determination.

7.2 Trade waste charges

Trade waste discharges are grouped into two categories. In general terms, the categories relate to the strength or volume of the waste being discharged. Wyong Council proposes that prices for 1999/2000 remain the same as for the previous year in nominal terms. The Tribunal accepts this proposal.

7.3 Effluent removal charges

Wyong Shire Council proposes that some charges previously not regulated by the Tribunal should be included in the list of charges regulated by the Tribunal. Council proposes that the prices of some of the charges be increased as illustrated in Table 7.2. Council states that increases are necessary to recover the costs actually being charged to Council by contractors and because of the decreasing number of calls for these services.

The Tribunal accepts the proposal that those charges previously not regulated be included in the list of regulated charges. The Tribunal rejects the proposal for increases in prices. Prices shall remain at the current levels. The Tribunal believes that Council will be able to fund any increases in costs for the coming year from total revenue, but will review the charges as part of a wider investigation of miscellaneous charges for the major review in 2000.

Table 7.2 Effluent removal charges

Type of service	Proposed cost of service 1999/2000	Determined cost of service 1999/2000
Annual two weekly service	\$712.00	\$712.00
Each requested special service*	\$32.00	\$26.00
Commercial service*	\$12/kL	\$12/kL
Routine maintenance of septic tanks*	\$180.00	\$135.00
Final cleanout of septic tank and collection well*	\$180.00	\$142.00

* Charge previously unregulated.

7.4 Chemical closet charges

Wyong Council proposes that the 'requested weekly special service' chemical closet charge be increased from \$22.00 to \$54.00. Council states that the increase is necessary to recover the costs actually being charged to Council by contractors and because of the decreasing number of calls for this service.

The Tribunal rejects the proposal and directs that the charge will remain at \$22.00. The Tribunal believes that Council will be able to fund any increases in costs for the coming year from total revenue, but will review the charges as part of a wider investigation of miscellaneous charges for the major review in 2000.

Table 7.3 Chemical closet charges

Type of service	Proposed cost of service 1999/2000	Determined cost of service 1999/2000
Annual fortnightly service	\$1,129.00	\$1,129.00
Each requested weekly special service	\$54.00	\$22.00

7.5 Other services

There is an extensive list of 'Other services' charges in Wyong Council's price list (see Determination No 2 attached). Council proposes that, with one exception, prices for current services should remain at 1998/99 levels. The Tribunal accepts the proposal that the prices for the current services remain at 1998/99 levels.

Council asks for an increase in the charge for pressure tests on water meters from \$61.00 to \$150.00. Council states that the higher price reflects the increased charge to Council by the company that performs the tests on Council's behalf. The Tribunal rejects the proposal for an increase in the charge for pressure tests on water meters and directs that the charge remains at \$61.00.

Council proposes that some charges previously not regulated by the Tribunal should be included in the list of charges regulated by the Tribunal. Council proposes that the prices of some of the charges be increased as shown in Table 7.4. The Tribunal accepts the proposal that those charges previously not regulated should be included in the list of regulated charges. The Tribunal rejects the proposal for increases in prices. Maximum prices shall remain at current levels. The Tribunal believes that Council will be able to fund any increases in costs for the coming year from total revenue, but will review the charges as part of a wider investigation of miscellaneous charges for the major review in 2000.

Council proposes that a new bond fee for the hire of a 25mm standpipe be accepted following requests from customers for a smaller standpipe to be made available. The Tribunal accepts the proposal for the addition of the Standpipe Bond Fee and agrees that the price should be set at \$309.00. The pricing of the new bond fee is in line with the current pricing for a 63mm standpipe.

The Tribunal will review all of the 'Other services' charges as part of an overall investigation into such miscellaneous charges for the major review in 2000.

Table 7.4 Construction certificates and subdivision/development works charges

	Proposed price 1999/2000	Determined price 1999/2000
Water Supply – All developments other than rural	\$3.60/lot	\$3.00/lot
– Rural developments	\$3.00/lot	\$2.50/lot
Sewerage reticulation	\$4.20/lot	\$3.50/lot

7.6 Developer charges

In the 1996 Medium Term Price Path determination for Wyong Shire Council, the Tribunal implemented a new methodology for the calculation of developer charges. The basic methodology has also been applied to the other three water utilities under the Tribunal's jurisdiction. However, parameters involved in the calculation were set individually by the Tribunal according to the specific circumstances of each water agency. In Wyong Council's case, one of the variables was that the quantum of developer charges was to be capped at 85 percent of the charge calculated under the methodology.

Wyong Council proposes that the 85 percent capping mechanism be phased out at the rate of 5 percent per annum over the next three years. This would see the cap set at 90 percent for the 1999/2000 year.

The developer charges methodology has been in place since 1996. The Tribunal has recently decided to conduct a review of the methodology and various issues associated with the area of developer charges. The review has not yet reached its conclusion.

In view of these circumstances, the Tribunal rejects Council's proposal for a phasing out of the 85 percent cap on developer charges that applies to Wyong Shire Council.

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 Wyong Council's Annual Report to the Minister and will continue to monitor this requirement.

Wyong Shire 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 THE NEXT MEDIUM TERM PRICE PATH

This determination will be in place for the period 1 July 1999 to 30 June 2000. From 1 July 2000 onwards, the Tribunal expects to set a medium term price path. This review will commence shortly. The Tribunal expects to release an Issues Paper in August. For that review, the Tribunal anticipates that it will address a number of issues, including the following.

9.1 Periodic water and sewerage prices

When setting a medium term price path, the Tribunal requires a high level of assurance about the impacts of prices. This applies particularly to the various matters that the Tribunal is required to have regard for under section 15 of the *Independent Pricing and Regulatory Tribunal Act 1992*. There is a necessity for a high level of analysis and investigation before prices can be set for some years into the future. For the major review in 2000, the Tribunal therefore expects to:

- conduct an analysis on Council's capital expenditure
- conduct an analysis of the operating efficiency of Council
- conduct an analysis of marginal costing, particularly as it applies to usage pricing
- continue development of the regulated asset base and the approach to rolling it forward
- conduct an analysis of the capital structure of Council
- conduct an analysis of the Council's viability of water and sewerage operations.

9.2 Pricing structure for water

The Tribunal has accepted a continuance of Council's current water pricing structure for this determination. The current structure involves a fixed water availability charge with a usage charge for consumption in excess of 0.55 kilolitres per day. The two corporatised water utilities Sydney Water Corporation and Hunter Water Corporation and more than 50 percent of local councils supplying water services in NSW will have two part tariffs for the 1999/2000 year. There is also a requirement for the adoption of consumption based pricing principles under National Competition Policy.

The Tribunal supports, in principle, two-part pricing with a usage component. However, this form of pricing would see the elimination of the pre-paid water allowance component contained in the current Wyong Council pricing structure. The Tribunal will require information from Council on the potential impacts of the change before coming to a decision on the maximum charge.

9.3 Miscellaneous charges

There are a number of miscellaneous charges contained within Council's price list. In a previous determination for Sydney Water for miscellaneous charges, the Tribunal sought justification in terms of cost for the individual charges and the potential for the charges to be opened to competition. A similar process will be conducted for Wyong Council for the major review in 2000. This may form part of a comprehensive and coordinated review of miscellaneous charges across each of the metropolitan water suppliers.

9.4 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 Wyong Council also charges for vacant land. The Tribunal will conduct a general review of these charges for the next major review in 2000.

9.5 Third party access

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

9.6 Postage stamp pricing

With the exception of developer charges, Wyong Council's charges are the same throughout the service area, ie postage stamp pricing.

The Tribunal will investigate for the next major review whether this form of pricing is appropriate or whether alternative forms of pricing such as differential pricing need to be substituted.

9.7 Exempt property fees

The Tribunal has received some complaints from owners of properties, normally defined as exempt properties, about the quantum of the fees that are levied on them by Wyong Council. In those instances, the Tribunal has found that the fees charged are in compliance with the fees listed in Council's price list.

According to Council's price list, these properties are exempt from service charges under Schedule 6 of the Water Supply Authorities Act but are levied fixed fees in accordance with section 30(2) of the Act (excess usage fees are also levied). The scale of the fees aligns with the scale of water availability charges levied on ordinary properties. When questioned at the public hearing whether the separate listing of water service fees for exempt properties was a legal requirement or intended to differentiate exempt properties and normal properties on a pricing basis, Council replied:

That is there because of the legal requirement. If you have a look at the way it is worded in there, it is fees as sort of distinct from service charges.

The Tribunal will seek clarification of this issue for the next major review in 2000.

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.

APPENDIX 1 DEFINITIONS OF FINANCIAL RATIOS

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)
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



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: 98/231
Determination: No 2, 1999
Agency: Wyong Shire 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. Water charges

a) Water availability charges

Table 1 Water availability charges

Nominal pipe/meter size	Meter charge \$	Fixed charge \$	Total \$
20mm	156.00	20.00	176.00
25mm	243.00	20.00	263.00
40mm	624.00	20.00	644.00
50mm	975.00	20.00	995.00
80mm	2,496.00	20.00	2,516.00
100mm	3,900.00	20.00	3,920.00
150mm	8,775.00	20.00	8,795.00

Charges for meters in excess of 150mm are calculated on the proportional increase in the area of the connection when compared to a 20mm connection, plus a fixed charge of \$20.00.

b) Prepaid water allowance

The prepaid water allowance for all properties covered by payment of the water availability charge is 0.55 kilolitres per day.

c) Water consumption charge

A charge of 60 cents per kilolitre applies to all water consumed in excess of the prepaid water allowance.

d) Water fire service

Availability charges for all properties (other than residential properties and Community Halls with a 20mm fire service) with unmetered services are:

Table 2 Unmetered fire service charges

Meter size	Meter charge \$
20mm	176.00
25mm	176.00
40mm	176.00
50mm	264.00
80mm	644.00
100mm	995.00
150mm	2,214.00

Unmetered fire services in excess of 150mm are charged 25 percent of the comparable meter charge detailed in Table 1, plus a fixed charge of \$20.00.

Properties which have a combined fire and commercial service are charged as if there was only one service and this charge is the higher of the individual services.

e) Water service charges exempt property

Properties exempt from service charges under Schedule 6 of the Water Supply Authorities Act are to be charged fees as per Table 3 in accordance with Section 30(2) of the Act. These fees are commensurate with water availability charges detailed in Table 1. A consumption fee of 60 cents per kilolitre for all water used in excess of the allowance of 0.55 kilolitres per day also applies.

Table 3 Exempt property fees

Meter size	Meter fee \$	Fixed fee \$	Total \$
20mm	156.00	20.00	176.00
25mm	243.00	20.00	263.00
40mm	624.00	20.00	644.00
50mm	975.00	20.00	995.00
80mm	2,496.00	20.00	2,516.00
100mm	3,900.00	20.00	3,920.00
150mm	8,775.00	20.00	8,795.00

f) Water service charges for vacant land

A water availability charge of \$176.00 per annum applies to vacant land to which water is supplied or to which it is reasonably practical for water to be supplied.

g) Water service charges strata title properties

Where a master meter is attached to service the Body Corporate, individual units are to pay a service charge of \$176.00. Where usage on the combined entitlement is in excess of 0.55 kilolitres per day, the Body Corporate is to pay a charge of 60 cents per kilolitre.

h) Water service charges community title properties

Where a master meter services a property, a service charge applies. The service charge is based on the availability charge commensurate with the size of the meter and the charge is apportioned to the various lots in the community title plan in accordance with the schedule of unit entitlement. A usage charge of 60 cents per kilolitre applies to the combined entitlement for usage in excess of 0.55 kilolitres per day.

i) Club/sporting bodies

A charge of 47 cents per kilolitre applies for water supply to golf clubs, lawn bowling clubs and clubs utilising water to maintain public sporting facilities.

j) Power stations

The applicable availability charge and a charge of 77 cents per kilolitre for usage in excess of 0.55 kilolitres per day applies to Power Stations.

2. Sewerage service charges

Residential charges

1 Single residential properties

The annual residential sewerage charge is not to exceed \$347.00 for each single residential property.

2 Non-strata titled units

The maximum sewerage charge for non-strata titled units is the lesser of:

0.435 cents in the dollar on land value plus \$146.00 per unit
or
a charge of \$347.00 per unit.

3 Non-strata titled retirement villages

The maximum sewerage charge for each unit in a non-strata titled retirement village is \$70.00.

Non-residential charges

1 *Non-residential premises*

The maximum sewer base charges for non-residential premises are:

Table 4 Non residential premises - sewer access charges

Meter size (mm)	Charge \$
20	125.00
25	195.00
40	500.00
50	781.00
80	2,000.00
100	3,125.00
150	7,031.00

The price for sewer usage charges for properties other than those classified as Category A under Council's Trade Waste Policy (see definition under Trade Waste Charges following) is 60 cents per kilolitre.

A usage charge applies to non-residential properties and is based on the estimated volume of metered water usage discharged into the Council's sewerage system. Metered water usage is multiplied by a discharge factor, based on the type of premises, to estimate the volume of water discharged.

The minimum charge payable for a non-residential customer is \$347.00.

2 *Premises classified as Category A under Council's Trade Waste Policy (see 3. Trade waste charges)*

Access charge	In accordance with Non-Residential Premises
Usage charge	In accordance with Trade Waste Policy
Licence/inspection fees	In accordance with Trade Waste Policy

3 *Premises classified as Category B under Council's Trade Waste Policy (see 3. Trade waste charges)*

Base charge	In accordance with Non-Residential Premises
Usage charge	60 cents/kL
Licence/inspection fees	In accordance with Trade Waste Policy

Other sewerage charges

1 Land belonging to religious bodies or schools

The charge for sewerage services rendered in respect of:

- a Land which belongs to a religious body and which is occupied and used in connection with:
 - i Any church or other building used or occupied for public worship OR
 - ii Any building used or occupied solely as the residence of a minister of religion in connection with any such church or building OR
 - iii Any building used or occupied for the purposes of religious teaching or training OR
 - iv Any building used or occupied solely as the residence of the official head or the assistant official head, or both, of any religious body in the State or in any Diocese in the State

- b Land which belongs to and which is occupied and used in connection with any school including any playground which belongs to and is used in connection with any such school, and any building occupied as a residence by a caretaker, servant or teacher of any such school which belongs to and is used in connection with the school

is \$23.00 per annum for each water closet on the premises. In any case where a urinal is installed an additional charge of \$17.00 per annum for each cistern servicing such a urinal may be levied.

2 Land, other than land listed above, belonging to religious bodies or the Crown and not rateable

The charge for sewerage services rendered in respect of:

- a Land, other than the land referred to in 1a belonging to a religious body which is not rateable
- b Land, other than the land referred to in 1b owned by the Crown, which is not rateable

is \$47.00 per annum for each water closet on the premises. In any case where a urinal is installed an additional charge of \$17.00 per annum for each cistern servicing such a urinal may be made.

3 Effluent removal charges

In accordance with the provisions of Section 30(2) of the Water Supply Authorities Act 1987 and Clause 6 of the Water Supply Authorities (Finance) Regulations of that Act, maximum fees are as follows:

Table 5 Effluent removal charges

Type of service	Cost of service
Annual two weekly service	\$712.00
Each requested special service	\$26.00
Commercial service	\$12/kL
Routine maintenance of septic tanks	\$135.00
Final cleanout of septic tank and collection well	\$142.00

4 *Chemical closet charges*

In accordance with the provisions of Section 30(2) of the *Water Supply Authorities Act 1987* and Clause 6 of the *Water Supply Authorities (Finance) Regulations* of that Act, maximum charges are as follows:

Table 6 Chemical closet charges

Type of service	Cost of service
Annual fortnightly service	\$1,129.00
Each requested weekly special service	\$22.00

3. Trade waste charges

Trade waste discharges are grouped into two categories.

Category A

Premises that discharge high strength or high volume wastes with the potential to have a significant adverse impact on the sewerage system if agreement standards are not maintained.

Premises listed under Category "A" shall be visited twice annually with samples being collected and tested according to agreement conditions. If quality of trade waste or volume is outside agreement conditions, the owner or occupier of the premises will be formally requested to comply with agreement conditions. Failure to comply with agreement conditions may result in the trader being refused permission to discharge waste to the sewerage system. A re-inspection fee shall apply to all inspections, other than twice annual sampling, required to achieve agreement conditions.

Category B

Premises that discharge wastes with the potential to have an adverse impact on the sewerage system if agreement standards are not maintained. Typically premises include:

1. Any club, hotel, motel, caravan park or hostel which has a kitchen.
2. Restaurants and cafes.
3. Butcher shops.
4. Garages and workshops.
5. Concrete batching plants and any light industry requiring pre-treatment of sewer wastes.

Premises listed under Category “B” shall be registered and inspected annually by Council staff to access compliance with agreement conditions. If the trader is in breach of agreement conditions a formal request to comply will be issued. Failure to comply may result in the trader being refused permission to discharge waste to the sewerage system or re-classification to a Category A discharger and imposition of the associated pay for use charging system. A re-inspection fee shall apply to all inspections, other than the annual sampling, required to achieve agreement conditions.

Table 7 Trade waste charges

Parameter	Charge	Unit of Measure/Comments
Volume	0.35	Cents per kilolitre
BOD	0.59	Cents per kilolitre
SS	0.48	Cents per kilogram
Oil and grease	1.19	Cents per kilogram
Annual licence fee	\$272.00	Includes inspection fee
Re-inspection fee	\$38.00	Per visit
Inspection fee	\$38.00	Inspection of Oil Arresters with water consumption less than 2,000 kL per year. (Inspection of premises plus collection of sample)

4. 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 Wyong Shire Council.

5. New or additional charges

All other charges for water, sewerage and drainage monopoly services provided by Wyong Shire Council shall remain at the maximum as determined in Determination No 4, 1996. Wyong Shire Council cannot levy any new or additional charges for water, sewerage and drainage services other than in accordance with the approval of the Tribunal in this or future determinations.

6. Other services

Item	\$
1 Septic and sewer applications	
1.1 Septic tank – design	N/A
For preparation of septic tank design layout for one week	
1.2 Septic tank – permits	121.00
Copy of septic tank approvals	
Per quarter	25.00
Per annum	100.00
1.3 Sewerage drainage arrestor	82.00
Each – then \$25 per annum for inspection	25.00
1.4 Sewerage junction repairs/additional. Minimum. (Estimate provided on application)	N/A
150mm Junction cut-in	
– no excavation or sideline, within property	225.00
no excavation, sideline, outside property	235.00
225mm Junction cut-in	
no excavation or sideline, within property	525.00
no excavation, sideline, outside property	555.00
Greater than 225mm or excavation required	Quotation
1.5 Plumbing and drainage inspection	
- Single dwelling/villas & units. Commercial & industrial application fee including max. 2 inspections	121.00
- Alterations/caravan parks & mobile homes for 1 unit Application fee including max. 2 inspections	61.00
- Additional inspections	45.00
- Caravan parks/mobile homes sullage only	36.00
1.6 Sewer mains	
Encasement – Inspection fee	76.00
1.7 Sewer Drainage	
- Diagram (external)	20.00
- Diagram (external) – uncertified	11.00
- Sewer long section	20.00
- Sewer long section – uncertified	11.00
1.8 Sewer connection	
- Diagram (internal)	20.00
- Diagram (internal) – uncertified	11.00
1.9 Sewer advance scheme	
Administration charge	198.00
2 Water	
2.1 Water carter's licence (per vehicle)	
Per quarter plus usage at excess water charge	92.00
Standpipe bond 63mm	595.00
Standpipe bond 25mm	309.00
Water usage charge for water drawn from standpipes	0.60 c/kL
2.2 Water pressure test	61.00
2.3 Water charges certificate (s. 41) – on application	26.00
2.4 Special reading fee	45.00
2.5 Meter testing fee	61.00
2.6 Water sample analysis – for water quality testing of private supplies	61.00
2.7 Water service applications (first water service and meter to	

Item	\$
residential allotments)	
20mm payable on submission of building application	546.00
 New subdivision where developer has extended service 300mm into property	 111.00
2.8 Raise/lower/adjust existing service – 20 mm service only (no materials)	101.00
Larger services	Quotation
2.9 Alteration from dual service to single service	304.00
2.10 Relocated existing service	254.00
Short	254.00
Long	395.00
2.11 Disconnection of existing service	99.00
2.12 Water service applications (other than residential allotments; includes meter)	
Size	
<i>Short</i>	
20mm	546.00
25mm	658.00
40mm	1,214.00
50mm	1,721.00
 <i>Long</i>	
20mm	546.00
25mm	658.00
40mm	1,567.00
50mm	2,116.00
 3 Construction certificates and subdivision/development works	
3.1 Water supply – all developments other than rural	\$3.00/lot
- rural developments	\$2.50/lot
3.2 Sewerage reticulation	\$3.50/lot