



# Maximum prices for connecting to a recycled water system

**Sydney Water, Hunter Water and Central Coast Council**

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# Preliminary

## 1 Scope of this determination

### 1.1 To what services does this determination apply?

- (a) This determination sets methodologies for fixing maximum prices for connecting a New Development to a Recycled Water System.
- (b) The methodology for connecting a New Development to a Recycled Water System where that Recycled Water System is a Least Cost Servicing Solution (a Schedule 1 Service) is set out in in Schedule 1.
- (c) The methodology for connecting a New Development to a Recycled Water System where that Recycled Water System is not a Least Cost Servicing Solution (a Schedule 2 Service) is set out in Schedule 2.

**[Note: The Nil Developer Charges Policy does not apply to the service of connecting a New Development to a Recycled Water System.]**

### 1.2 To which Agencies does this determination apply?

This determination applies only to services provided by Sydney Water, Hunter Water and Central Coast Council. In the case of Central Coast Council, it applies only to services provided as a Water Supply Authority (as distinct from services provided as a Council).

### 1.3 Where does this determination apply?

Maximum prices under this determination apply only to DSP Areas and only in:

- (a) Sydney Water's Area of Operations;
- (b) Hunter Water's Area of Operations; and
- (c) Central Coast Council's Area of Operations.

**[Note: A DSP Area is an area where a Development Servicing Plan applies. The Agencies are responsible for defining DSP Areas.]**

### 1.4 An exclusion from the scope of this determination

This determination does not apply to services provided pursuant to a Negotiated Services Agreement.

## 2 Commencement and duration of this determination

- (a) This determination commences on 1 July 2019 or the day that it is published in the NSW Government Gazette, whichever is later.
- (b) This determination continues in force until it is revoked or replaced.

## 3 IPART may make scheme-specific determinations

In addition to this determination, IPART may make further determinations under section 11 of the IPART Act of the pricing for a particular Determination Service supplied by an Agency in respect of specific schemes or Developments. Such a scheme-specific determination may:

- (a) replace this determination in part; and
- (b) apply for a term ending on, or before or after, the end date of this determination.

## 4 Replacement of other determination

This determination replaces the following determination:

- (a) Determination No 8 of 2006 – Sydney Water Corporation, Hunter Water Corporation, Gosford City Council and Wyong Shire Council – Pricing arrangements for recycled water and sewer mining.

## 5 Which parts of this determination apply to each service?

The table below outlines the contents of each Schedule and the service to which each Schedule applies.

Schedule	Contents	Service to which the Schedule applies
Schedule 1	Pricing methodology	Schedule 1 Service
Schedule 2	Pricing methodology	Schedule 2 Service
Schedule 3	Requirements for DSPs	Schedule 2 Service
Schedule 4	Parameters and calculations	Schedule 2 Service
Schedule 5	Inflation, rounding and zero prices	Schedule 2 Service
Schedule 6	Definitions and interpretation	All
Schedule 7	Statement of reasons for setting methodologies	All

## 6 Dispute resolution

A customer who is dissatisfied with the way an Agency has applied the methodologies set out in this determination may:



- (a) complain to the Agency; and
- (b) if the complaint has been reviewed by the Agency and the customer is still dissatisfied, the customer may request to have the dispute arbitrated under section 31 of the IPART Act.

## **7 This determination fixes a maximum price**

For the avoidance of doubt, this determination sets methodologies for fixing the maximum price that an Agency may charge its customers. It does not oblige any Agency to provide, or any customer to purchase, the Determination Service.

## **8 Legislative background**

### **8.1 IPART may set maximum prices for government monopoly services supplied by specified government agencies**

Section 11(1)(a) of the IPART Act provides IPART with a standing reference for the determination of maximum prices for government monopoly services supplied by a government agency specified in Schedule 1 to the IPART Act.

### **8.2 The Determination Service is a government monopoly service**

The Determination Service is a government monopoly service because it falls within the scope of the *Independent Pricing and Regulatory Tribunal (Water, Sewerage and Drainage Services) Order 1997*.

### **8.3 The Agencies are specified in Schedule 1 to the IPART Act**

- (a) Sydney Water and Hunter Water are each specified by name in Schedule 1 to the IPART Act.
- (b) Schedule 1 to the IPART Act also specifies Water Supply Authorities. Central Coast Council is a Water Supply Authority.

### **8.4 IPART has set methodologies, rather than directly fixing a maximum price**

This determination sets methodologies for fixing the maximum price that Agencies may charge for the Determination Service under sections 11 and 13A of the IPART Act. As required by section 13A(3) of the IPART Act, IPART's reasons for setting methodologies for fixing a maximum price are set out in Schedule 7.

## Schedule 1 Maximum price where the Recycled Water System is a Least Cost Servicing Solution

[Note: This Schedule sets out the methodology for calculating the maximum price that Sydney Water, Hunter Water and Central Coast Council can charge for connecting a New Development in a DSP Area to a Recycled Water System where the Recycled Water System is a Least Cost Servicing Solution. For example, this Schedule would apply where Hunter Water connects a newly developed apartment complex in a DSP Area to a Recycled Water System as a lower-cost alternative to connecting it to a conventional sewerage system.]

### 1 Methodology for fixing the maximum price for a Schedule 1 Service

- (a) Subject to clause 4 below, the maximum price (or prices) an Agency may charge for a Schedule 1 Service is the maximum price (or prices) that would apply under the 2018 Developer Charges Determination for connecting a New Development in a DSP Area to:
  - (1) a drainage system, where the Recycled Water System is a Least Cost Servicing Solution as compared to the relevant drainage system;
  - (2) a sewerage system, where the Recycled Water System is a Least Cost Servicing Solution as compared to the relevant sewerage system;
  - (3) a water supply system, where the Recycled Water System is a Least Cost Servicing Solution as compared to the relevant water supply system; or
  - (4) any combination of a drainage system, sewerage system or water supply system, where the Recycled Water System is a Least Cost Servicing Solution as compared to that combination of systems.
- (b) The maximum price under the 2018 Developer Charges Determination applies to a Schedule 1 Service despite anything in that determination, including, without limitation, clause 1.4(b) of the Preliminary section to that determination.

### 2 Procedural requirements

- (a) Agencies must apply Schedule 4 of the 2018 Developer Charges Determination as though:

- (1) a Recycled Water System which is a Least Cost Servicing Solution in respect of a drainage system to which the 2018 Developer Charges Determination applies were an element of that drainage system;
  - (2) a Recycled Water System which is a Least Cost Servicing Solution in respect of a sewerage system to which the 2018 Developer Charges Determination applies were an element of that sewerage system;
  - (3) a Recycled Water System which is a Least Cost Servicing Solution in respect of a water supply system to which the 2018 Developer Charges Determination applies were an element of that water supply system; and
  - (4) a Recycled Water System which is a Least Cost Servicing Solution in respect of any combination of a drainage system, sewerage system or water supply system to which the 2018 Developer Charges Determination applies were an element of that combination of systems.
- (b) Clause 2(a) above applies despite anything in the 2018 Developer Charges Determination, including, without limitation, clause 1.4(b) of the Preliminary section to that determination.

### 3 Calculation of revenues and costs

When calculating the Reduction Amount for a Schedule 1 Service, the relevant operating revenues and operating costs are:

- (a) the operating revenues and operating costs associated with the drainage system, where the Recycled Water System is a Least Cost Servicing Solution as compared to the relevant drainage system;
- (b) the operating revenues and operating costs associated with the sewerage system, where the Recycled Water System is a Least Cost Servicing Solution as compared to the relevant sewerage system;
- (c) the operating revenues and operating costs associated with the water supply system, where the Recycled Water System is a Least Cost Servicing Solution as compared to the relevant water supply system; or
- (d) the operating revenues and operating costs associated with the relevant combination of Systems, where the Recycled Water System is a Least Cost Servicing Solution as compared to a combination of a drainage system, sewerage system or water supply system.

### 4 Application of the Nil Developer Charges Policy

Despite any provision in this determination or the 2018 Developer Charges Determination, the maximum price that Sydney Water and Hunter Water may charge for a Schedule 1 Service is zero until the Nil Developer Charges Policy Change Day.

## Schedule 2 Maximum price where the Recycled Water System is not a Least Cost Servicing Solution

[Note: This Schedule sets out the methodology for calculating the maximum price that Sydney Water, Hunter Water and Central Coast Council can charge for connecting a New Development in a DSP Area to a Recycled Water System where the Recycled Water System is not a Least Cost Servicing Solution. For example, this Schedule would apply where Sydney Water connects a newly developed apartment complex in a DSP Area to a Recycled Water System that is not a lower-cost alternative to connecting it to a conventional system.]

### 1 Methodology for fixing the maximum price for a Schedule 2 Service

- (a) This clause 1 applies subject to each of the clauses in Schedule 5.

[Note: Schedule 5 provides for inflation adjustments, rounding and zero prices in certain circumstances.]

- (b) The maximum price an Agency may charge for connecting a Schedule 2 Service is the amount calculated as follows:

$$MP_{RW} = \frac{K}{L} - \frac{NPV(R_i - C_i)}{L} - \frac{PV(CO)}{L} \text{ for } i = \text{financial years } 1, \dots, n$$

Where:

$MP_{RW}$  means the maximum price per Equivalent Tenement to be serviced by the connection;

$K$  means the Capital Charge for Assets that will serve the relevant DSP Area, calculated in accordance with clause 2.3 of Schedule 4 and set out in the relevant DSP;

$L$  means the Agency's estimate of the number of Equivalent Tenements in the relevant DSP Area, calculated in accordance with clause 3.2 of Schedule 4 and set out in the relevant DSP;

$R_i$  means the Agency's estimate of the future periodic revenues to be received from new customers receiving the Recycled Water Service from the Recycled Water System in the relevant DSP Area in each financial year  $i$ , estimated in accordance with clause 4 of Schedule 4 and set out in the relevant DSP;

$C_i$  means the Agency's estimate of the future operating, maintenance and administration costs of servicing new customers receiving the Recycled Water Service from the Recycled Water System in the relevant DSP Area in each financial year  $i$  (excluding, for the avoidance of doubt, any Capital Costs), estimated in accordance with clause 5 of Schedule 4 and set out in the relevant DSP;

CO means the Cost Offset for the relevant DSP Area in each financial year  $i$ , calculated in accordance with clause 7 of Schedule 4 and set out in the relevant DSP; and

$n$  is the financial year which is 30 years from the financial year in which the relevant DSP was registered with IPART under clause 2(e) of Schedule 3.

**[Note: For the purposes of a draft DSP,  $n$  is the financial year which is 30 years from the financial year in which the draft DSP is expected to be registered with IPART under clause 2(e) of Schedule 3.]**

**[Note:  $n$  is the end of the forecast period for the assessment of expected revenues, costs and cost offsets.]**

**[Note: Schedule 3 sets out the parameters and calculations that an Agency must use when calculating maximum prices under this clause.]**

- (c) The maximum price under clause 1(b) is to be calculated at the time the relevant DSP is registered with IPART under clause 2(e) of Schedule 3.

## Schedule 3 Requirements for DSPs

**[Note: This Schedule applies only to Schedule 2 Services. The requirements for DSPs for Schedule 1 Services are set out in Schedule 4 to the 2018 Developer Charges Determination.]**

### 1 Minimum content for each DSP

At all times, each Agency must be reasonably satisfied that it has in place a sufficient number of DSPs, and DSPs that cover a sufficient aggregate area, to meet present demand for the Determination Service and expected medium-term growth in demand for the Determination Service. Each DSP must contain the following, at a minimum:

- (a) a summary of the contents of the DSP;
- (b) a statement specifying the Recycled Water System to which the DSP relates;
- (c) a clear and accurate description of the DSP Area to which the DSP applies, including:
  - (1) its size;
  - (2) the basis for defining its boundaries; and
  - (3) reference to other DSPs where there is an overlap or co-usage of Assets;
- (d) demographic and land use planning information including:
  - (1) the current residential population in the DSP Area;
  - (2) the estimated Equivalent Tenements in the DSP Area as at 1 January 2007;
  - (3) the estimated number of new Equivalent Tenements in the DSP Area in each subsequent financial year up to 30 financial years starting from the financial year in which the DSP was registered with IPART under clause 2(e) of this Schedule 3; and
  - (4) the projected population in the DSP Area for each financial year over a period of 30 financial years starting from the financial year in which the DSP was registered with IPART under clause 2(e) of this Schedule 3;

**[Note: See clause 8 of Schedule 4 for demographic assumptions.]**

- (e) timing of works in the DSP Area including:
  - (1) completed capital works; and
  - (2) proposed capital works;
- (f) the standards of service to be provided to customers in the DSP Area and design parameters of Assets;
- (g) the calculated maximum price under clause 1 of Schedule 2 ( $MP_{RW}$ ), and the information used to calculate that price, including:

- (1) the future periodic revenues expected to be received from new customers in the DSP Area each financial year;
- (2) the charges used for the calculation of those revenues;  

[Note: The charges used should be consistent with the relevant periodic charges referred to in clause 4(c) of Schedule 4.]
- (3) average Recycled Water usage figures used for the calculation of those revenues;
- (4) the future expected annual operating, maintenance and administration costs of providing Recycled Water Services to new customers in the DSP Area in each financial year; and
- (5) indexation principles and parameters used for that calculation;
- (h) a description, or reference to a background document containing the description, of Pre-2007 Assets and Post-2007 Assets in the DSP Area including:
  - (1) the date (or forecast date) of the commissioning of each Asset;
  - (2) the size/length of each Asset;
  - (3) the estimated efficient cost of each Asset (if applicable);
  - (4) the unit cost of each Asset (if applicable);
  - (5) the MEERA valuation of each Asset (if applicable);
  - (6) the total capacity of each Asset expressed in Equivalent Tenements (if applicable); and
  - (7) the details of the number of Equivalent Tenements served by each Asset in each DSP Area, where that Asset serves more than one DSP Area; and
- (i) a comparison of the maximum price for the Determination Service in the DSP Area, calculated under clause 1 of Schedule 2 ( $MP_{RW}$ ) with the Comparison Price, but only where the DSP is a DSP that has been remade following a review under clause 3 of this Schedule 3 (as opposed to a DSP made for the first time).

## 2 Consultation and registration requirements for DSPs

- (a) Following preparation of a draft DSP, an Agency must:
  - (1) publicly exhibit, on the Agency's website, the draft DSP at least 30 working days prior to the Agency forwarding that DSP to IPART for registration under clause 2(d) (the **Exhibition Period**);
  - (2) prepare and make available on the Agency's website, for the duration of the Exhibition Period, all of the critical data behind the draft DSP, including the models used to calculate the prices for the Determination Service, so that interested parties can assess the draft DSP and make informed written submissions on that draft DSP to the Agency; and
  - (3) advertise in a manner likely to get the attention of interested parties, the start date of the Exhibition Period, the length of the Exhibition Period and that

written submissions on the draft DSP can be made to the Agency during the Exhibition Period.

**[Note: This could include, for example, advertising in a local newspaper with circulation covering the draft DSP Area and placing a notice on the home page of the Agency's website.]**

- (b) At least 10 working days before the start date of the Exhibition Period, an Agency must inform the following stakeholders of the start date of the Exhibition Period, the length of the Exhibition Period and that written submissions on the draft DSP can be made to the Agency during the Exhibition Period:
  - (1) the Urban Development Institute of Australia;
  - (2) the Housing Industry Association;
  - (3) any other relevant association representing Developers active in the draft DSP Area; and
  - (4) any Developers who, in the 6 months prior to the commencement of the Exhibition Period, have applied to the Agency for Planning Approval.
- (c) In finalising a draft DSP, the Agency must consider all submissions made by interested parties on the draft DSP.
- (d) Once the Agency has finalised the draft DSP, the Agency must forward the draft DSP to IPART for registration. At the time of forwarding the draft DSP, the Agency is to inform IPART of any submissions lodged during the Exhibition Period and the Agency's responses to the submissions.
- (e) IPART may register and publish on its website a draft DSP forwarded to it under clause 2(d).
- (f) A DSP comes into effect upon registration by IPART.

### 3 Review of DSPs

- (a) Subject to clause 3(b), an Agency is to complete a review of each DSP before the 5 year anniversary of the commencement of the most recent revisions to that DSP.
- (b) Despite clause 3(a), IPART may, on the application of an Agency or on its own initiative, direct an Agency, in writing, to commence and complete a review of a DSP within the timeframe specified by IPART. An Agency must comply with any such direction.
- (c) A direction under clause 3(b) may exempt an Agency from complying with clause 3(a) to the extent specified in the direction.

**[Note: A review involves the preparation of a draft DSP following the reconsideration of the content required to be included in a DSP under clause 1, consultation on the draft DSP under clause 2 and the forwarding of the finalised DSP to IPART for registration under clause 2(d).]**

### 4 Saving of existing DSPs

- (a) Despite any other provision of this Schedule 3, a DSP registered by IPART pursuant to IPART's Determination No 8 of 2006 – Sydney Water Corporation,



Hunter Water Corporation, Gosford City Council and Wyong Shire Council – Pricing arrangements for recycled water and sewer mining - is deemed to continue in force from the Commencement Date as a DSP registered by IPART under clause 2(e) of this Schedule 3.

- (b) An Agency is not required to comply with clauses 1 and 2 of this Schedule 3 in respect of a DSP continued in force by clause 4(a) until the date on which the Agency is required to complete a review of that DSP under clause 3 of this Schedule 3.
- (c) For the avoidance of doubt, despite clause 4(b), where an Agency conducts a review of a DSP continued in force by clause 4(a) and that review is completed after the Commencement Date, the Agency must conduct the review in accordance with clause 2 and include the matters set out in clause 1 of this Schedule 3.

## 5 Implementing a DSP

In implementing maximum prices under Schedule 2 of this determination, Agencies must use a calculation spreadsheet that has been approved by IPART.

**[Note: IPART has released a template spreadsheet that Agencies can use to calculate maximum prices under Schedule 2, which is available on IPART's website. Agencies can either use IPART's template, or request that IPART approves a different calculation spreadsheet.]**

## Schedule 4 Parameters and calculations

[Note: This Schedule applies only to Schedule 2 Services. The parameters and calculations applicable to Schedule 1 Services are set out in Schedule 5 to the 2018 Developer Charges Determination.]

### 1 Discount Rate

- (a) The Discount Rates to be used in the calculation of Present Values in this determination are:
- (1) for  $r_1$  – the Agency's Real Pre-tax WACC; and
  - (2) for  $r_2$  – the Agency's Real Post-tax WACC.
- (b) An Agency's Real Pre-tax WACC is that set out in the Final Report accompanying that Agency's Prevailing Periodic Determination.
- (c) An Agency's Real Post-tax WACC is that set out in the Final Report accompanying that Agency's Prevailing Periodic Determination.

### 2 Recovery of capital expenditure

#### 2.1 Valuation of Assets

- (a) In calculating Capital Charges, an Agency must apply the valuation method in the right-hand column of the table below to the categories of Assets specified in the left-hand column.

Asset	Valuation Method
Asset already commissioned	MEERA
Asset yet to be commissioned	Estimated efficient costs

- (b) The efficient cost of all Assets must be taken from an asset register or other source acceptable to IPART.

#### 2.2 Apportionment of Assets

- (a) If an Asset services other areas in addition to a DSP Area, an Agency must apportion the Capital Charge for that Asset according to expected utilisation at the point in time the Asset reaches capacity.
- (b) An Agency is to calculate the portion of the Capital Charge attributable to a particular DSP as follows:

$$\frac{\text{Expected utilisation of the Asset by the relevant DSP (in Equivalent Tenements)}}{\text{Total expected utilisation of that Asset (in Equivalent Tenements)}}$$

## 2.3 Calculation of the Capital Charge ( $K$ )

An Agency must calculate the Capital Charge ( $K$ ) by adding together the Agency's estimates under clause 2.3(a) and 2.3(b) below:

- (a) An Agency must calculate a Capital Charge for commissioned Assets (a component of  $K$ ) as follows:
  - (1) estimate the value of the relevant Assets in accordance with the valuation methodology specified in clause 2.1;
  - (2) convert that estimated value to Real Terms; and
  - (3) convert the value of those Assets in Real Terms to Present Values using the Discount Rate  $r_t$ , from the date the Asset was commissioned.
- (b) An Agency must calculate a Capital Charge for Assets yet to be commissioned (a component of  $K$ ) as follows:
  - (1) estimate the value of the relevant Assets in accordance with the valuation methodology specified in clause 2.1;
  - (2) convert that estimated value to Real Terms; and
  - (3) convert the value of those Assets in Real Terms to Present Values using the Discount Rate  $r_t$ , from the expected date of commissioning.

**[Note: Assets that service areas outside the DSP Area must first be apportioned according to clause 2.2 of Schedule 4 with only the relevant portion being included in the Capital Charge.]**

## 2.4 Capital Charge principles

An Agency must calculate the Capital Charges under clause 2.3 according to the following principles:

- (a) All Assets must be included for the purposes of the calculation.

**[Note: The definition of "Assets" under clause 1 of Schedule 6 excludes certain assets, called "Excluded Assets".]**

- (b) Once an Asset is commissioned, an Agency must calculate the Capital Charge for that Asset in accordance with clause 2.3(a) of this Schedule 4 at the next DSP review provided for in Schedule 3 to this determination.
- (c) When estimating the efficient costs of Assets yet to be commissioned, an Agency must examine all available options and choose the option that is the most efficient.
- (d) Where:
  - (1) an Agency temporarily supplies services to a DSP Area from an existing Asset; and
  - (2) the Agency transfers the supply of services to the DSP Area from the existing Asset to the new Asset that has just been commissioned;

then only the costs of the new Asset may be included in the calculation of the Capital Charge.

- (e) Where a proposed Development influences the timing of an Agency's anticipated expenditure on an Asset, that anticipated expenditure must be included in the calculation of Capital Charges by:
- (1) estimating the extent to which the proposed Development would bring forward the timing of the anticipated expenditure, as compared with the timing of the anticipated expenditure if that Development did not proceed;
  - (2) calculating the difference in the Net Present Value between the anticipated expenditure that may arise due to that change in timing; and
  - (3) including the cost calculated under clause 2.4(e)(2) as part of the Capital Charge only if that cost exceeds the cost of any comparable existing Assets used by the Development.

**[Note: Where the costs calculated under clause 2.4(e)(2) are included in the Capital Charge, the cost of the comparable existing Assets are not to be included in the calculation of the Capital Charge.]**

### 3 Equivalent Tenement

#### 3.1 Meaning of Equivalent Tenement

**Equivalent Tenement** means:

- (a) the Equivalent Tenement value specified in the Final Report accompanying the Prevailing Periodic Determination for the relevant Agency; or
- (b) where the Final Report accompanying the Prevailing Periodic Determination for the relevant Agency does not specify an Equivalent Tenement value, that Agency's estimate of the total demand that an average single residential dwelling places on the Recycled Water System.

#### 3.2 Calculation of Equivalent Tenements (*L*)

- (a) An Agency must calculate the Equivalent Tenements (*L*) as follows:
  - (1) estimate the number of new Equivalent Tenements in the DSP Area that utilise the Asset from 1 January 2007 in the 2006-07 financial year;
 

**[Note: An Agency's estimate of the number of new Equivalent Tenements in the DSP Area that utilise the Asset from 1 January 2007 to 30 June 2007 may be half the number for the full 2006-07 financial year.]**
  - (2) estimate the number of new Equivalent Tenements in the DSP Area in each subsequent financial year up to Financial Year 30;
  - (3) convert those numbers of Equivalent Tenements to Present Values using the Discount Rate  $r_1$ ; and
  - (4) add together the Present Values calculated under clause 3.2(a)(3) above.
- (b) In this clause 3.2, **Financial Year 1** means the financial year in which the relevant DSP was registered with IPART under clause 2(e) of Schedule 3, Financial Year 2 means the next financial year, and so on.

**[Note: An Agency must estimate *L* as part of a DSP review and specify these figures in a DSP.]**

## 4 Operating revenues ( $R_i$ )

An Agency must estimate the future periodic revenues expected to be received from new customers in a DSP Area ( $R_i$ ) according to the following principles:

- (a) An Agency must project operating revenues on the basis of the efficient operation of the Assets used to provide the Recycled Water Service in that DSP Area.
- (b) An Agency's projection of operating revenues arising from a DSP Area must be formulated to best meet the needs of its users.
- (c) An Agency must estimate future revenues using the relevant periodic charge applied to the consumption of an average customer in the relevant customer class. The relevant periodic charge is:
  - (1) in the case of a mandatory recycled water scheme, the periodic charge determined by:
    - (A) IPART; or
    - (B) if IPART has not determined a periodic charge, the Agency in accordance with IPART's pricing guidelines; and
  - (2) in the case of a voluntary recycled water scheme, the periodic charge agreed between the Agency and voluntary customers in accordance with IPART's pricing principles.
- (d) Future operating revenues arising from a DSP Area must be projected over a 30 year period from 1 July of the financial year in which a DSP is registered with IPART under clause 2(e) of Schedule 3.

## 5 Operating costs ( $C_i$ )

An Agency must estimate operating, maintenance and administration costs ( $C_i$ ) according to the following principles:

- (a) The operating, maintenance and administration costs must:
  - (1) be based on the most efficient and lowest cost means of providing the Recycled Water Service; and
  - (2) assume the continuation of the service standards set out in the DSP.
- (b) Future operating, maintenance and administration costs must be projected over a 30 year period from 1 July of the financial year in which the DSP is registered with IPART under clause 2(e) of Schedule 3.

## 6 Reduction Amount

**Reduction Amount** means the Net Present Value of the Agency's estimate of the future periodic revenues to be received from new customers receiving the Recycled Water Service in the relevant DSP Area in each financial year  $i$  and the Agency's estimate of

the future operating, maintenance and administration costs of servicing new customers receiving the Recycled Water Service in the relevant DSP Area in each financial year  $i$ , calculated using  $r_1$ :

$$NPV(R_i - C_i)$$

## 7 Cost Offset

### 7.1 Calculation of the Cost Offset

An Agency must calculate the Cost Offset as follows:

- (a) estimate each variable of the following cost offset formula for each financial year  $i$  from the financial year in which the relevant DSP was registered with IPART under clause 2(e) of Schedule 3:

$$CO = S + AC + EB + GD$$

Where:

$CO$  means the Cost Offset for each financial year  $i$ ;

$S$  means any subsidy received in each financial year  $i$  by an Agency for the provision of the Determination Service to the DSP Area;

$AC$  means Avoided Costs in each financial year  $i$ ;

$EB$  means the External Benefit in each financial year  $i$ ; and

$GD$  means costs associated with a Recycled Water System or part of a Recycled Water System which is the subject of a Government Directive in each financial year  $i$ .

- (b) convert the estimates for the  $AC$ ,  $EB$  and  $GD$  variables to Present Values using the Discount Rate  $r_1$ ;
- (c) convert the estimates for the  $S$  variable to Present Values using:
  - (1)  $r_1$  where the Agency is liable to pay tax on the subsidy; and
  - (2)  $r_2$  where the Agency is not liable to pay tax on the subsidy; and
- (d) add together the Present Values calculated under clauses 7.1(b) and 7.1(c) above.

### 7.2 Avoided Costs

For the purposes of clause 7.1, **Avoided Costs** means the avoided (and deferred) costs due to a Recycled Water System:

- (a) determined by IPART in the Final Report accompanying an Agency's Prevailing Periodic Determination; or
- (b) where IPART has not determined the avoided (and deferred) costs in the Final Report accompanying that Agency's Prevailing Periodic Determination, the Agency's estimate of the avoided (and deferred) costs made in accordance with the principles set out in the Final Report accompanying this determination.

[Note: Where an Agency estimates the avoided (and deferred) costs, IPART will not necessarily agree with the Agency's estimate of the avoided (and deferred) costs in the Final Report accompanying the next periodic determination.]

### 7.3 External Benefit

For the purposes of clause 7.1, **External Benefit** means:

- (a) the external benefit from the Recycled Water System as determined by IPART in the Final Report accompanying an Agency's Prevailing Periodic Determination; or
- (b) where IPART has not determined the external benefit from the Recycled Water System in the Final Report accompanying the Agency's Prevailing Periodic Determination, the Agency's estimate of the external benefit having regard to customers' willingness to pay for the external benefit.

[Note: Where an Agency estimates the external benefit, IPART will not necessarily agree with the Agency's estimate of the external benefit in the Final Report accompanying the next periodic determination.]

## 8 Demographic assumptions

Demand for the Determination Service arises from, in part, population growth and changes in urban density. An Agency's forecasts of population and densities must have regard to the latest demographic statistics published by the NSW Department of Planning and Environment for the Area of Operations of the relevant Agency or a comparable area. For local works, the demographic statistics used must be locality specific, that is, at the local government level. For system-wide works, such as Headworks, the demographic statistics used must be for the Area of Operations of the relevant Agency.

[Note: These demographic assumptions are a key factor in estimating *L*.]

## 9 Present Value

An Agency is to calculate the Present Value (PV) of an amount of money or a number of Equivalent Tenements as follows:

$$PV = FV(1 + r)^{-k}$$

Where:

*PV* means the Present Value of an amount of money or a number of Equivalent Tenements;

*FV* means the future value of an amount of money or a number of Equivalent Tenements;

*r* means the applicable Discount Rate set out in clause 1(a) of this Schedule 4; and

$k$  means the number of periods to apply the applicable Discount Rate.



## Schedule 5 Inflation, rounding and zero prices

[Note: This Schedule applies only to Schedule 2 Services. The provisions dealing with inflation, rounding and zero price that are applicable to Schedule 1 Services are set out in Schedule 6 to the 2018 Developer Charges Determination.]

### 1 Inflation

- (a) Maximum prices calculated under this determination are to be adjusted for inflation by multiplying the maximum price calculated under Schedule 2 by:

$$\frac{CPI_{y_{0+k}}}{CPI_{y_0}}$$

Where:

$CPI_{y_{0+k}}$  means CPI for the March quarter of the financial year immediately preceding the financial year in which the maximum price calculated is to apply; and

$CPI_{y_0}$  means CPI for the March quarter of the financial year immediately preceding the financial year in which the relevant DSP was registered with IPART under clause 2(e) of Schedule 3.

### 2 Rounding

- (a) The CPI multiplier calculated under clause 1(a) is to be rounded to three decimal places before adjusting the relevant maximum price for inflation.
- (b) For the purposes of rounding the CPI multiplier under clause 2(a), any amount that is a multiple of 0.0005 (but not a multiple of 0.001) is to be rounded up to three decimal places.
- (c) Any maximum price calculated in accordance with this determination is to be rounded to the nearest whole cent.
- (d) For the purposes of rounding a maximum price under clause 2(c), any amount that is a multiple of 0.5 cents (but not a multiple of 1 cent) is to be rounded up to the nearest whole cent.

[Example: This example demonstrates how a maximum price calculated under clause 1 of Schedule 2 ( $MP_{RW}$ ) and set out in a DSP registered with IPART under clause 2(e) of Schedule 3 in the 2016-17 financial year is adjusted for inflation and rounded in accordance with clauses 1 and 2 of this Schedule 5 to produce the maximum price to apply for the Determination Service in that DSP in the 2018-19 financial year.

The base year for the maximum price ( $MP_{RW}$ ) set out in the DSP is  $y_{0+i}$  and expressed in \$2016-17.

In this example:

$$MP_{RW} = \$100.56 \text{ at time } y_{0+1}$$

$$CPI_{y_{0+k}} = CPI \text{ for the 2018 March quarter} = 112.6$$

$$CPI_{y_0} = CPI \text{ for the 2016 March quarter} = 108.2$$

The CPI multiplier under clause 1(a) of this Schedule 5 is:

$$\frac{CPI_{y_{0+k}}}{CPI_{y_0}} = \frac{112.6}{108.2} = 1.040665$$

After applying the rounding rule in clause 2(a) and 2(b) of this Schedule 5, the CPI multiplier is:

$$\frac{CPI_{y_{0+k}}}{CPI_{y_0}} = \frac{112.6}{108.2} = 1.041$$

The maximum price at time  $y_{0+3}$  in \$2018-19 after adjusting for inflation under clause 1(a) of this Schedule 5 is:

$$MP_{RW} = 100.56 \times 1.041 = \$104.68296$$

After applying the rounding rule in clauses 2(c) and 2(d) of this Schedule 5, the maximum price is \$104.68.]

### 3 No negative prices

If a maximum price calculated for a Schedule 2 Service is less than zero, that maximum price is taken to be zero.

## Schedule 6 Definitions and interpretation

### 1 Definitions

In this determination:

**2018 Developer Charges Determination** means IPART's October 2018 determination on the maximum prices for connecting, or upgrading a connection, to a water supply, sewerage, or drainage system for Sydney Water, Hunter Water and Central Coast Council published in New South Wales, *Gazette*, No 126, 23 November 2018, 9050.

**Agency** means:

- (a) Sydney Water;
- (b) Hunter Water; and
- (c) Central Coast Council, only to the extent that it provides services as a Water Supply Authority (as distinct from a Council).

**Area of Operations** means:

- (a) in respect of Sydney Water, its area of operations under the Sydney Water Act;
- (b) in respect of Hunter Water, its area of operations under the Hunter Water Act; and
- (c) in respect of Central Coast Council, its area, within the meaning of the *Local Government Act 1993* (NSW).

**Assets** means all assets or parts of assets (including Headworks) forming part of a Recycled Water System, apart from Excluded Assets, allocated to a DSP where there is a nexus (close connection) to the Development they are intended to serve and includes assets that:

- (a) were commissioned prior to the Commencement Date;
- (b) were commissioned after the Commencement Date but before the Development commenced; and
- (c) are commissioned, or are to be commissioned, after the Development commences.

**Avoided Costs** has the meaning given in clause 7.2 of Schedule 4.

**Capital Charge** means the Present Value of Assets.

**Capital Costs** means the return on and of capital (depreciation).

**Central Coast Council** means the Council by that name under the *Local Government Act 1993* (NSW).

[Note: The former Gosford City Council and Wyong Shire Council were amalgamated to form Central Coast Council in 2016.]

**Commencement Date** means the date on which this determination commences, under clause 2 of the Preliminary section of this determination.

**Comparison Price** means the maximum price for connecting a New Development to a Recycled Water System that applied immediately prior to the commencement of a remade DSP.

**Cost Offset** has the meaning given in clause 7 of Schedule 4.

**Council** has the meaning given under the *Local Government Act 1993* (NSW).

**CPI** means the consumer price index, All Groups index number for the weighted average of eight capital cities as published by the Australian Bureau of Statistics; or, if the Australian Bureau of Statistics does not publish or ceases to publish the index, then CPI will mean an index determined by IPART.

**Determination Service** means the service set out in clause 1.1 of the Preliminary section of this determination.

**Development** has the meaning given under section 1.5 of the *Environmental Planning and Assessment Act 1979* (NSW).

**Developer** means a person carrying out, or intending to carry out, Development.

**Discount Rate** means a discount rate specified in clause 1 of Schedule 4.

**DSP or Development Servicing Plan** means:

- (a) in the context of a Schedule 1 Service, a document registered by IPART under clause 2(e) of Schedule 4 to the 2018 Developer Charges Determination; and
- (b) in the context of a Schedule 2 Service, a document registered by IPART under clause 2(e) of Schedule 3 to this determination.

**DSP Area** means that part of an Agency's Area of Operations that is covered by:

- (a) in the context of a Schedule 1 Service, a DSP registered with IPART under clause 2(e) of Schedule 4 to the 2018 Developer Charges Determination; and
- (b) in the context of a Schedule 2 Service, a DSP registered by IPART under clause 2(e) of Schedule 3 to this determination.

**Equivalent Tenement** has the meaning given in clause 3.1 of Schedule 4.

**Excluded Assets** means:

- (a) that part of an asset provided for a reason other than to service a growth area;
- (b) that part of an asset that services other DSP Areas;

- (c) the capacity of an asset that was made available by changes in land use patterns, or by changes in average demand;
- (d) any asset or part of an asset that was unreasonably oversized relative to system and capacity requirements, based on available demographic data at the time it was commissioned; and
- (e) any asset or part of an asset funded by Developers and transferred free of charge to the Agency.

**Exhibition Period** means the period of at least 30 working days prior to an Agency adopting a DSP, as referred to in clause 2(a)(1) of Schedule 3.

**External Benefit** has the meaning given in clause 7.3 of Schedule 4.

**Financial Year** has the meaning given in clause 3.2(b) of Schedule 4.

**Government Directive** means a direction to IPART under s 16A of the IPART Act which:

- (a) requires IPART to include an amount that represents the efficient costs of complying with a binding requirement imposed on an Agency by the NSW Government relating to a Recycled Water System; and
- (b) IPART has adhered to, by including such an amount in a maximum price provided for in a Prevailing Periodic Determination.

**GST** means goods and services tax payable under the *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

**Headworks** means significant assets of a Recycled Water System that provide services to more than a single DSP Area. For example, headworks may comprise a system of storage reservoirs, recycled water treatment works and major supply conduits.

**Hunter Water** means the Hunter Water Corporation constituted under the Hunter Water Act.

**Hunter Water Act** means the *Hunter Water Act 1991* (NSW).

**IPART** means the Independent Pricing and Regulatory Tribunal of New South Wales established under the IPART Act.

**IPART Act** means the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW).

**Least Cost Servicing Solution** means a Recycled Water System which, in an Agency's estimate, provides:

- (a) drainage services to a DSP Area at a cost lower than or equal to the lowest cost of providing drainage services of an equivalent standard to the DSP Area through a drainage system that does not use a Recycled Water System;

- (b) sewerage services to a DSP Area at a cost lower than or equal to the lowest cost of providing sewerage services of an equivalent standard to the DSP Area through a sewerage system that does not use a Recycled Water System;
- (c) water supply services to a DSP Area at a cost lower than or equal to the lowest cost of providing water supply services of an equivalent standard to the DSP Area through a water supply system that does not use a Recycled Water System; or

**[Note: By definition, a Recycled Water System is not a substitute to a potable water supply system. Accordingly, a Recycled Water System may only be a Least Cost Servicing Solution in respect a water supply system which is not intended to supply potable water.]**

- (d) any combination of drainage services, sewerage services or water supply services to a DSP Area at a cost lower than or equal to the lowest cost of providing that combination of services to the DSP Area to an equivalent standard through Systems that do not use a Recycled Water System.

**[Note: In determining whether a Recycled Water System is a Least Cost Servicing Solution, an Agency must estimate the costs of servicing the DSP Area with a Recycled Water System and compare that to the Agency's estimate of the lowest costs of servicing the DSP Area without using a Recycled Water System.]**

**MEERA** means Modern Engineering Equivalent Replacement Asset, which is an asset value calculated on the basis that the asset is constructed at the time of valuation in accordance with modern engineering practice and the most economically viable technologies, which provides similar utility functions to the existing asset in service.

**Negotiated Services Agreement** means a written agreement between an Agency and a Developer:

- (a) under which that Agency agrees to supply the Determination Service to that Developer at a price that is not a maximum price fixed in accordance with the methodology for fixing a maximum price set out in this determination for the Determination Service; and
- (b) which is entered into after the Commencement Date.

**Net Present Value** or **NPV** means the difference between two Present Values (for example, the difference between the Present Value of revenue and the Present Value of costs).

**New Development** means a property which requires connecting to a Recycled Water System, because of new Development in respect of it, but excludes any Development in respect of which Planning Approval has been issued before the Commencement Date.

**Nil Developer Charges Policy** means the NSW Government's December 2008 decision to abolish Sydney Water and Hunter Water's developer charges for water, wastewater and stormwater services, implemented by the Treasurer's directions dated 18 December 2008 under section 18(2) of the IPART Act.

**Nil Developer Charges Policy Change Day** means the date in respect of which the NSW Government notifies IPART that it has altered its Nil Developer Charges Policy to allow non-zero developer charges by Sydney Water and Hunter Water.

**Planning Approval** means:

- (a) a compliance certificate, which may be issued by Sydney Water pursuant to section 73 of the Sydney Water Act;
- (b) a compliance certificate, which may be issued by Hunter Water pursuant to section 50 of the Hunter Water Act;
- (c) a certificate of compliance, which may be issued by Central Coast Council under section 307 of the Water Management Act; or
- (d) a development consent, which may be issued by Central Coast Council pursuant to section 4.46 of the *Environment Planning and Assessment Act 1979* (NSW) where that development consent incorporates relevant water and sewerage charges and conditions in accordance with section 306 of the Water Management Act.

**Post-2007 Assets** means Assets that were commissioned (brought into working condition) on or after 1 January 2007 or that are yet to be commissioned.

**Pre-2007 Assets** means Assets that were commissioned (brought into working condition) before 1 January 2007.

**Present Value** or **PV** has the meaning given in clause 9 of Schedule 4.

**Prevailing Periodic Determination** means:

- (a) in respect of Sydney Water, Determination No. 5 of 2016 or a determination that substantially replaces it from time to time;
- (b) in respect of Hunter Water, Determination No. 4 of 2016 or a determination that substantially replaces it from time to time; and
- (c) in respect of Central Coast Council, Determinations No. 2 and No. 3 of 2013 or a determination that substantially replaces them from time to time.

**Real Post-tax WACC** has the meaning given in clause 1(c) of Schedule 4.

**Real Pre-tax WACC** has the meaning given in clause 1(b) of Schedule 4.

**Real Terms** means a value of a variable that has been adjusted for change in the purchasing power of money by a CPI adjustment.

**Recycled Water** means water that has been treated to enable its use for certain industrial, commercial and/or household applications, but is not intended to meet the standards for drinking water required by the National Health and Medical Research Council's Australian Drinking Water Guidelines, as amended from time to time.

**Recycled Water Service** means the service of supplying Recycled Water to retail customers.

**Recycled Water System** means a system operated by an Agency for the supply of Recycled Water.

**Reduction Amount** means:

- (a) in the context of a Schedule 1 Service, the reduction amount defined in clause 6 of Schedule 5 to the 2018 Developer Charges Determination; and
- (b) in the context of a Schedule 2 Service, the reduction amount defined in clause 6 of Schedule 4 to this determination.

**Schedule 1 Service** means the service of connecting a New Development to a Recycled Water System where that Recycled Water System is a Least Cost Servicing Solution.

**Schedule 2 Service** means the service of connecting a New Development to a Recycled Water System, but does not include a Schedule 1 Service.

**Sydney Water** means the Sydney Water Corporation constituted under the Sydney Water Act.

**Sydney Water Act** means the *Sydney Water Act 1994* (NSW).

**System** means any of the following operated by an Agency:

- (a) a water supply system;
- (b) a sewerage system; and
- (c) a drainage system.

**Water Management Act** means the *Water Management Act 2000* (NSW).

**Water Supply Authority** has the meaning given under the Water Management Act.

## 2 Interpretation

### 2.1 General provisions

In this determination:

- (a) headings are for convenience only and do not affect the interpretation of this determination;
- (b) a reference to a schedule, clause or table is a reference to a schedule to, clause of, or table in, this determination unless otherwise indicated;
- (c) a construction that would promote a purpose or object expressly or impliedly underlying the IPART Act is to be preferred to a construction that would not promote that purpose or object;



- (d) words importing the singular include the plural and vice versa;
- (e) a reference to a law or statute includes regulations, rules, codes and other instruments (including licences) under it and consolidations, amendments, reenactments or replacements of them or of the law or statute itself;
- (f) where a word is defined, other grammatical forms of that word have a corresponding meaning;
- (g) a reference to a month is to a calendar month;
- (h) a reference to a financial year is a reference to a period of 12 months beginning on 1 July and ending on the following 30 June;
- (i) a reference to a person includes a reference to the person's executors, administrators, successors, substitutes (including, but not limited to, persons taking by novation), replacements and assigns; and
- (j) a reference to a body, whether statutory or not:
  - (1) which ceases to exist; or
  - (2) whose powers or functions are transferred to another body;is a reference to the body which replaces it or which substantially succeeds to its powers or functions.

## **2.2 Explanatory notes and clarification notice**

- (a) Explanatory notes do not form part of this determination, but in the case of uncertainty may be relied on for interpretation purposes.
- (b) IPART may publish a clarification notice in the NSW Government Gazette to correct any manifest error in this determination. Such a clarification notice is taken to form part of this determination.

## **2.3 Maximum prices exclusive of GST**

Prices calculated in accordance with this determination for Schedule 2 Services do not include GST.

For the avoidance of doubt, where GST is lawfully applied to prices calculated in accordance with this determination, the resulting GST inclusive price is consistent with this determination.

## Schedule 7 Statement of reasons for setting a methodology

### 1 Legislative framework

Under section 13A of the IPART Act, IPART may not choose to make a determination that involves setting the methodology for fixing a maximum price, unless IPART is of the opinion that it is impractical to make a determination directly fixing the maximum price.

If IPART makes a determination that involves setting the methodology for fixing a maximum price then it must include a statement of the reasons why it chose to set a methodology.

### 2 Statement of reasons

In this determination, IPART has set methodologies for fixing the maximum prices that Agencies may charge for the Determination Service. IPART's reasons for setting methodologies for fixing the maximum prices for this service, rather than directly fixing maximum prices, are set out in this Schedule 7.

IPART has determined methodologies for fixing maximum prices because it would not be possible for IPART to cover the required diversity of services through a fixed maximum price. This is because connection charges are levied to recover recycled water infrastructure costs incurred to service a large variety of developments.

Developers include the prices for the Determination Service in their planning and investment decisions and require a rapid response when applying for an assessment of charges. If Agencies had to return to IPART each time they received an application for an assessment of maximum prices for a Determination Service, unworkable delays could result as IPART would have to devote considerable time and resources to mechanically calculating such prices. IPART considers it preferable that this work be completed by the Agencies.

In addition, IPART has chosen to set methodologies for fixing maximum prices in order for the prices to more closely reflect the costs of providing the Determination Service. The costs of providing the Determination Service vary between Agencies and within each Agency's Area of Operations. If IPART fixed a single maximum price for the Determination Service, then customers may end up paying significantly more than the cost of providing the service in some cases and significantly less than the cost of providing the service in other cases.

Alternatively, if IPART were to determine more specific maximum prices for different areas then it would risk selecting areas that do not result in cost reflective prices. If IPART chose areas that are too small then there may be undue price variations between areas. On the other hand, if IPART were to choose areas that are too large then costs may be inappropriately averaged over disparate areas. We consider that the maximum price for the Determination Service should reasonably reflect the location-specific costs of development. Since Agencies are best placed to determine the appropriate scope of a DSP, we consider that the methodologies employed in the determination are more likely to reflect the cost of providing the service than if IPART determined prices directly.

In addition, costs may change over time and the methodologies and review processes in this determination and the 2018 Developer Charges Determination allow for revisions to the maximum price for the Determination Service without requiring changes to the determinations. For this reason, we consider that setting methodologies, as opposed to directly fixing maximum prices, is more appropriate in this case.