

# Central Coast Council price review - Preliminary views for public hearing

13 November 2018

## WHAT

IPART is reviewing the prices that **Central Coast Council** ('the Council') can charge for its water, sewerage, stormwater and related services. In this review, we will determine maximum prices that the Council can charge from 1 July 2019.

On 7 September 2018, we received pricing proposals from:

- ▼ the Council, and
- ▼ Hunter Water (on prices for bulk water transfers between it and the Council only).

To facilitate discussion at our upcoming public hearing, this Fact Sheet outlines our preliminary views on the pricing proposals.

## HOW

We generally aim to set prices to recover the efficient costs of providing services. To do so, we will need to decide:

- ▼ how many years to set prices for
- ▼ how much water is likely to be demanded by customers
- ▼ what is the efficient level of capital and operating costs the Council requires over this period
- ▼ how the Council's prices are structured, including how its costs are shared between different types of customers, and
- ▼ what form of regulation and other incentives to apply.

In making our decisions, we will consider and balance the impacts on the Council

and its customers, including having regard to customer affordability, environmental impact and service standards.

## WHEN

### Key dates for this review:

12 June 2018	IPART released Issues Paper
7 Sept 2018	Council and Hunter Water submitted proposals
19 Oct 2018	Public submissions closed
27 Nov 2018	Public hearing
Early April 2019	IPART releases Draft Report and Determinations
Late April 2019	Public submissions due
Late May 2019	IPART releases Final Report and Determinations
1 July 2019	New maximum prices apply

## WHERE

IPART will hold a public hearing at: **Mingara Recreation Club, Tumbi Umbi on 27 November 2018**. You can register to attend at: [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au)

## WHAT NEXT?

We will release a **Draft Report and Determination** and call for submissions from all interested parties in **Early April 2018**.

Table 1 below summarises the Council's proposals on key issues and provides IPART's preliminary views. We have also included the Council's proposed water, sewerage and stormwater prices in Table 2 below. We will consider all stakeholder views prior to making our draft decisions.

**Table 1 Summary of the Council's proposals and our preliminary views**

Council's pricing proposal	IPART's preliminary view
<b>Harmonising prices between Gosford and Wyong</b>	
<p>Currently, water and sewerage <b>usage prices</b> (per kilolitre) are the same for all Council customers. But, <b>service prices</b> (fixed annual prices per meter or dwelling) differ — sometimes substantially — between the former Gosford and Wyong local government areas (LGAs).</p> <p>The Council proposes:</p> <ul style="list-style-type: none"> <li>▼ harmonising service prices between the former LGAs in 2019-20, and</li> <li>▼ maintaining the new prices in real terms thereafter (that is, prices would only increase by inflation).</li> </ul> <p>The Council notes that most customers it surveyed responded that service prices should be "consistent" across the Central Coast.</p> <p>Under the Council's proposal:</p> <ul style="list-style-type: none"> <li>▼ <b>water service prices</b> would fall for all customers</li> <li>▼ <b>sewerage service prices</b> would rise in the former Wyong LGA and fall in the former Gosford LGA, and</li> <li>▼ <b>stormwater service prices</b> would fall for most residential customers and rise for many non-residential customers.</li> </ul>	<p>Our preliminary view is that harmonising prices is likely to be appropriate for <b>water services</b>, as the water network has been integrated across the Council's area historically (the former Gosford and Wyong Councils operated a joint water supply). But, we are not convinced that prices for <b>sewerage and stormwater services</b> should be harmonised. If the cost of providing these services differs between areas, different prices may be justified.</p> <ul style="list-style-type: none"> <li>▼ For example, we agree with submissions that stormwater prices should not be aligned if it means that rural properties pay for services supplied to others.</li> <li>▼ If we did accept the proposal to align these prices, we would consider a transition period to manage bill impacts.</li> </ul>
<b>Water and sewerage prices</b>	
<p><i>Setting service prices using a 20mm meter base with all residential customers paying the same prices</i></p> <p>The Council proposes to set the same water and sewerage service prices for all <b>houses</b> and <b>apartments</b> (based on a 20mm meter price).</p> <ul style="list-style-type: none"> <li>▼ A key argument is that all houses and apartments should pay the same service prices for water and sewerage because the distinction between these two dwelling types is blurring (with house blocks reducing in size, resulting in smaller gardens, while complexes of flats or townhouses have larger open spaces).</li> </ul> <p>The Council also proposes that <b>non-residential</b> service prices increase with these customers' actual meter sizes — using a 20mm meter (the smallest available meter size) instead of a 25mm meter as the basis to calculate all prices. That is, the 20mm meter charge is scaled-up to reflect the actual size of a customer's meter.</p>	<p>For <b>residential service prices</b>, we note that a few stakeholders argue that apartments should pay less than houses (for example, as a shared pipeline imposes lower costs on the system). We will consider their views and any available data on dwelling types in making a decision.</p> <p>For <b>non-residential service prices</b>, our preliminary view is that the Council's proposal is reasonable. We consider the meter size is a reasonable proxy for a non-residential customer's share of system capacity (or fixed costs). It would also ensure that non-residential customers with the same size meter are treated consistently; removing an anomaly that currently exists between small businesses with one 20mm meter and other non-residential customers with multiple 20mm meters.</p>

Council's pricing proposal	IPART's preliminary view
<p><i>Service prices for retirement villages</i></p> <p>The Council proposes to continue charging retirement villages non-residential prices (that is, based on their meter size rather than the number of dwellings).</p>	<p>Submissions were mixed about retirement village prices. Retirement villages generally supported meter-based prices while others questioned if there are equity issues with other residential dwellings. We are considering how to balance the views put forward by stakeholders on this matter.</p>
<p><i>Assumed sewerage discharge or 'discharge allowance' included in sewerage service price</i></p> <p>As sewerage discharge is not metered, the sewerage service price for all customers includes the cost of an assumed level of sewerage discharge (currently 150 kL per annum). The Council proposes to reduce this to 112.5 kL (75% of average residential water usage).</p>	<p>Our preliminary view is that this approach is reasonable as the current assumed discharge is likely to be too high for residential customers, on average.</p>
<p><i>Water and sewerage usage prices</i></p> <p>The Council proposes:</p> <ul style="list-style-type: none"> <li>▼ Lowering <b>water usage prices</b> from \$2.29/kL to \$2.20/kL, based on its estimated long-run marginal cost (LRMC) of water supply.</li> <li>▼ Lowering <b>sewerage usage prices</b> (levied on non-residential customers for discharge above the 'discharge allowance') from \$0.83/kL to \$0.40/kL, based on its estimated short-run marginal cost (SRMC) of collecting and treating sewerage.</li> </ul>	<p>We support the Council's approach to setting these prices as it is consistent with the preliminary views outlined in our Issues Paper. However, we are reviewing its cost estimates.</p>
<p><b>Stormwater prices</b></p>	
<p><i>Introducing area-based stormwater prices</i></p> <p>The Council proposes area-based stormwater prices, where:</p> <ul style="list-style-type: none"> <li>▼ <b>Residential apartments/flats</b> pay less than houses, and</li> <li>▼ <b>Non-residential properties</b> pay a price based on the area of their property.</li> </ul> <p>The Council also proposes that a low impact price be available on application for non-residential customers, and that this price be equal to the price for a residential house.</p>	<p>Our preliminary view is that property area generally provides a reasonable and readily available proxy for an <b>urban</b> customer's impact on stormwater costs. However, the Council proposes significant increases to prices for non-residential customers with a large property area. If we accepted the Council's proposal, a transition to area-based prices over several years would likely be needed to manage bill impacts.</p> <p>Our preliminary view is that property area is unlikely to be a good proxy for a <b>rural</b> property's impact on the Council's stormwater costs. Rather, as these properties tend to have onsite water retention and limited impervious surfaces, they should be automatically classified low impact and charged no more than a residential house. Many submissions raised concerns about whether a stormwater service is provided, and that farmland properties face potentially large stormwater price increases.</p>

Council's pricing proposal	IPART's preliminary view
<b>Expenditure &amp; service levels</b>	
<i>Capital expenditure</i>	
<p>The Council proposes a substantial increase in capital expenditure — from <b>average annual capital costs</b> of \$55 million per year in the last determination period to \$89 million per year over the next four years (an average increase of 61%). It outlines that this is needed to:</p> <ul style="list-style-type: none"> <li>▼ catch up on delayed or deferred projects (such as the Mardi to Warnervale pipeline), and</li> <li>▼ keep pace with growth and community expectations of service levels.</li> </ul>	<p>We have engaged expert expenditure consultants to review the prudence and efficiency of the capital projects delivered since we last set prices, and those the Council is proposing to complete in the upcoming determination period.</p>
<i>Operating expenditure</i>	
<p>The Council proposes average operating costs of \$102 million per year over the next four years, forecasting operating costs will increase by 5% from 2018-19 to 2019-20, and then remain steady.</p>	<p>Our expenditure consultants are reviewing proposed operating costs for efficiency, including identifying any potential merger efficiency savings.</p>
<i>Output measures</i>	
<p>The Council's performance against past output measures has been mixed. It has also proposed new output measures focusing on the frequency of water quality complaints, unplanned interruptions, water main breaks and sewerage overflows.</p>	<p>Our expenditure consultants are reviewing whether past operating and capital expenditure has impacted service levels, and whether the proposed output measures reflect expenditure priorities.</p>
<b>Demand</b>	
<i>Demand forecasts</i>	
<p>The Council predicts water demand will increase by more than 500 ML (or 2%) from 2020 to 2023. It has used the latest available Integrated Supply-Demand Planning (iSDP) model, also used by Hunter Water. The Council engaged the <i>Institute of Sustainable Futures (University of Technology Sydney)</i> to review its forecasts.</p>	<p>Our preliminary view is that the Council has significantly improved its demand forecasting compared to the 2013 price review. As the Council has proposed reducing water usage prices, we will also consider the impact of lower water prices on consumption.</p>
<i>Demand volatility adjustment mechanism</i>	
<p>The Council proposes narrowing the <b>volatility band</b> around forecast demand from +/-10% to +/-5%. Within this band, we would allow demand fluctuations compared to forecasts. If demand fluctuated outside this band, we would consider an adjustment to future prices so that the Council does not significantly over- or under- recover revenue due to unexpected changes in demand.</p>	<p>Our preliminary view is to accept this proposal as it is consistent with the preliminary view outlined in our Issues Paper.</p>
<b>Prices for other services</b>	
<i>Bulk water transfer price between Hunter and the Council</i>	
<p>In the 2013 review, IPART set the transfer price at \$0.60/kL (\$2012-13), based on the Council's short run marginal cost (SRMC) of water supply – the higher SRMC of the two utilities. The Council and Hunter Water both propose maintaining the current pricing approach for bulk water transfers between the two regions.</p>	<p>Our preliminary view is that prices based on SRMC may not reflect the full opportunity cost of bulk water transfers. However, we will consider a number of factors prior to making a decision, including the merits of price stability and the nature of the supply agreement.</p>

Council's pricing proposal	IPART's preliminary view
<p><i>Prices for services to WICA utilities</i></p> <p>The Council supplies bulk water services to two WICA utilities:</p> <ul style="list-style-type: none"> <li>▼ Catherine Hill Bay (operated by Solo Water), and</li> <li>▼ Narara Ecovillage.</li> </ul> <p>It proposes to continue to charge these utilities in the same way as non-residential customers.</p> <ul style="list-style-type: none"> <li>▼ Solo Water submits its water usage price (\$2.29/kL) is too high compared to the bulk water transfer price to Hunter Water (discussed above). Solo Water argues the correct price should be somewhere between the bulk water transfer price to Hunter Water and the non-residential price, reflecting the cost of supply.</li> <li>▼ We did not receive a submission from Narara Ecovillage.</li> </ul>	<p>We will review and determine the appropriate price for water services supplied to Solo Water. We will work with the Council and Solo Water to better understand the service arrangements. We will also consider Solo Water's unique circumstances compared to other WICA schemes, as it purchases water from the Council to supply to end-users outside the Council's area (in Hunter Water's area). Our preliminary view for Narara Ecovillage is to not set a separate scheme-specific price, unless we receive a request for a scheme-specific review from either Narara Ecovillage or the Council (either concurrent with or after this price review).</p>
<p><i>Trade waste and miscellaneous prices</i></p> <p>The Council has proposed to consolidate trade waste and miscellaneous prices between the former Gosford and Wyong LGAs.</p>	<p>We have a specialist consultant reviewing the proposed prices in detail, including assessing whether they reflect the costs of each service.</p>
<p><b>Length of determination and other incentives</b></p>	
<p><i>Length of determination – how long should IPART set prices for?</i></p>	
<p>The Council proposes that IPART should set prices for <b>four years</b> to allow the Council and its community to plan for the future, and to maintain alignment with Hunter Water.</p>	<p>We have often favoured four-year price determinations, as this balances providing stability and predictability, minimising regulatory costs, creating incentives for the utility to increase efficiency, and ensuring forecasts can be made with a reasonable degree of accuracy.</p> <p>However, as the Council has only recently merged, there may be a case for a shorter period (such as three years). A shorter period has advantages where expenditure forecasts are less certain in later years.</p>
<p><i>Unregulated pricing agreements</i></p> <p>The Council did not support introducing unregulated pricing agreements with large non-residential customers.</p> <ul style="list-style-type: none"> <li>▼ It noted that the majority of its high volume customers are residential.</li> <li>▼ It also considers that such agreements would only result in discounts for large customers, which would discourage reducing water usage, increase administrative costs, and result in a subsidy to large non-residential users at the expense of residential users.</li> </ul> <p>We note two submissions were also opposed to unregulated agreements.</p>	<p>We are considering the concerns raised by stakeholders and have not reached a preliminary view.</p> <p>Allowing unregulated agreements may have merit if:</p> <ul style="list-style-type: none"> <li>▼ it allows two informed parties to negotiate a mutually beneficial outcome compared to regulated prices, and</li> <li>▼ the Council is able to ring-fence the costs of unregulated agreements, to prevent other customers from cross-subsidising the costs of providing services to customers on unregulated agreements.</li> </ul> <p>We will consider whether the Councils should be permitted to enter unregulated agreements with: (i) Hunter Water (for bulk water transfers), (ii) WICA utilities, and/or (iii) large non-residential customers.</p>

**Table 2 Proposed water, sewerage and stormwater prices compared to current prices**

\$2018-19	Proposed	Former Wyong		Former Gosford	
	2019-20 <sup>a</sup>	2018-19	Proposed % change	2018-19	Proposed % change
<b>Water</b>					
Usage (\$/kL)	2.20	2.29	-4%	2.29	-4%
Residential service - house, flat or unit (\$/year)	113.20	164.63	-31%	197.81	-43%
Non-residential service (\$/year)					
20mm	113.20	146.01	-22%	N/A	
25mm	176.87	228.15	-22%	276.05	-36%
40mm	452.79	584.09	-22%	706.68	-36%
80mm	1,811.17	2,336.34	-22%	2,826.71	-36%
<b>Sewerage</b>					
Usage (\$/kL) (non-residential) <sup>b</sup>	0.40	0.83	-52%	0.83	-52%
Residential service - house, flat or unit (\$/year)	538.70	483.28	11%	672.66	-20%
Non-residential service (\$/year)					
20mm	538.70	284.15	90%	987.09	-45%
25mm	816.41	443.99	84%	1,542.33	-47%
40mm	2,019.80	1,136.61	78%	3,948.37	-49%
80mm	7,944.21	4,546.43	75%	15,793.47	-50%
<b>Stormwater drainage (\$/year)</b>					
<i>Residential</i>					
Houses	110.77	128.32	-14%	124.64	-11%
Strata/flat/multi premise	83.08	96.24	-14%	124.64	-33%
				124.64	
<i>Non-residential</i>					
Low impact	110.77				
Small (<1,000m <sup>2</sup> )	110.77				
Med (1,001 - 10,000m <sup>2</sup> )	276.93				
Large (10,001 - 45,000m <sup>2</sup> )	1,716.96				
Very Large (>45,000m <sup>2</sup> )	5,427.81				
20mm		128.32			
25mm		200.50			
40mm		513.28			
80mm		2,053.14			
150mm		7,218.05			
200mm		12,832.09			

**Source:** Central Coast Council pricing submission, 7 September 2018, Table 2.

<sup>a</sup> The Council proposes to only increase prices with inflation from 2019-20.

<sup>b</sup> The Council proposes that all customers would pay for an implicit discharge amount (or 'discharge allowance') as part of their sewerage service price and only non-residential customers would pay for sewerage discharge above the discharge allowance.