

# **Gosford City Council Wyong Shire Council**

Prices for water, sewerage and stormwater drainage  
services from 1 July 2009 to 30 June 2013

**Water — Draft Determinations and Draft Report**  
March 2009



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## Invitation for submissions

IPART invites written comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

**Submissions are due by 27 March 2009.**

We would prefer to receive them by email <[ipart@ipart.nsw.gov.au](mailto:ipart@ipart.nsw.gov.au)>.

You can also send comments by fax to (02) 9290 2061, or by mail to:

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## **Gosford City Council**

**Draft Determination No. 1, 2009**





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# Preliminary

## 1 Background

- (a) Section 11 of the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW) permits IPART to conduct investigations and make reports to the Minister on the determination of the pricing for a government monopoly service supplied by a government agency specified in Schedule 1 of the IPART Act.
- (b) Water supply authorities constituted under the *Water Management Act 2000* (NSW) are listed as government agencies for the purposes of schedule 1 of the IPART Act. Under the *Water Management Act*, Gosford City Council (the **Council**) is listed as a water supply authority. The services of the Council declared as monopoly services under the *Independent Pricing and Regulatory Tribunal (Water, Sewerage and Drainage Services) Order 1997 (Order)* are:
  - (1) water supply services;
  - (2) sewerage services;
  - (3) stormwater drainage services;
  - (4) trade waste services;
  - (5) services supplied in connection with the provision or upgrading of water supply and sewerage facilities for new developments and, if required, drainage facilities for such developments;
  - (6) ancillary and miscellaneous customer services for which no alternative supply exists and which relate to the supply of services of a kind referred to in paragraphs (1) to (5); and
  - (7) other water supply, sewerage and drainage services for which no alternative supply exists,(together the **Monopoly Services**).

Accordingly, IPART may determine the prices for the Monopoly Services.

- (c) In investigating and reporting on the pricing of the Monopoly Services, IPART has had regard to a broad range of matters, including the criteria set out in section 15(1) of the IPART Act.
- (d) In accordance with section 13A of the IPART Act, IPART has fixed the maximum price or set a methodology for fixing the maximum price for the Monopoly Services.
- (e) Under section 18(2) of the IPART Act, the Council may not fix a price below that determined by IPART without the approval of the Treasurer.

## **2 Application of this determination**

- (a) This determination fixes the maximum prices (or sets a methodology for fixing the maximum prices) that the Council may charge for the Monopoly Services.
- (b) This determination commences on the later of 1 July 2009 and the date that it is published in the NSW Government Gazette (**Commencement Date**).
- (c) The maximum prices in this determination apply from the Commencement Date to 30 June 2013. The maximum prices in this determination prevailing at 30 June 2013 continue to apply beyond 30 June 2013 until this determination is replaced.

## **3 Replacement of Determination No. 2 of 2006**

Determination No. 2 of 2006 is replaced by this determination from the Commencement Date. The replacement does not affect anything done or omitted to be done, or rights or obligations accrued, under that determination prior to its replacement.

## **4 Monitoring**

IPART may monitor the performance of the Council for the purposes of:

- (a) establishing and reporting on the level of compliance by the Council with this determination; and
- (b) preparing a periodic review of pricing policies in respect of the Monopoly Services supplied by the Council.

## **5 Schedules**

- (a) Schedule 1 and the tables in that schedule set out the maximum prices that Council may charge for water supply services.
- (b) Schedule 2 and the tables in that schedule set out the maximum prices that Council may charge for sewerage services.
- (c) Schedule 3 and the table in that schedule set out the maximum prices that Council may charge for stormwater drainage services.
- (d) Schedule 4 and the tables in that schedule set out the maximum prices that Council may charge for trade waste services.
- (e) Schedule 5 and the table in that schedule set out the maximum prices that Council may charge for ancillary and miscellaneous customer services.

- (f) Schedule 6 sets out IPART's reasons for choosing to set a methodology when setting a maximum price for water service charges.
- (g) Schedule 7 sets out the definitions and interpretation provisions.

## Schedule 1 Water supply services

### 1 Application

This schedule sets the maximum prices that the Council may charge for the Monopoly Services under paragraph (a) of the Order (water supply services).

### 2 Categories for pricing purposes

Prices for water supply services have been determined for 4 categories:

- (a) Metered Properties;
- (b) Vacant Land;
- (c) Unmetered Properties; and
- (d) Multi Premises.

### 3 Charges for water supply services to Metered Properties

The maximum price that may be levied by the Council for the provision of water supply services to a Metered Residential Property or a Metered Non Residential Property (each connected to the Water Supply System) is the sum of the following:

- (a) subject to clause 7 of this schedule, the water service charge in Table 1, corresponding to the Meter size; and
- (b) the water usage charge in Table 2, per kL of water used.

### 4 Charges for water supply services to Vacant Land

The maximum price that may be levied by the Council for the provision of water supply services to Vacant Land (whether there is a Meter on that Vacant Land or not) is the water service charge in Table 3 (subject to clause 7 of this schedule).

## 5 Charges for water supply services to Unmetered Properties

The maximum price that may be levied by the Council for the provision of water supply services to an Unmetered Property is:

- (a) subject to clause 7 of this schedule, the water service charge in Table 1 (with that Unmetered Property taken to have a Meter size of 20mm); and
- (b) the water usage charge in Table 2, per kL of water used, as if the water used by that Unmetered Property was equal to the average water consumption of all the Properties located on the same street as that Unmetered Property.

## 6 Levying water supply service charges on Multi Premises

### 6.1 Water supply charges for Multi Premises

- (a) This clause 6 prescribes how the maximum prices in this schedule are to be levied on Multi Premises.
- (b) Clause 3 of this schedule does not apply to Metered Properties if this clause 6 is capable of applying to those Properties.

### 6.2 Multi Premises (other than a Retirement Village)

For a Multi Premises (other than a Retirement Village):

- (a) which is connected to the Water Supply System; and
- (b) which has a Common Water Meter or multiple Common Water Meters,

the maximum price that may be levied by the Council for the provision of water supply services to a Property within that Multi Premises is the sum of the following:

- (c) subject to clause 7 of this schedule, the water service charge in Table 1 (with that Property taken to have a Meter size of 20mm); and
- (d) the water usage charge in Table 2, as if the water used by that Property was determined by the following formula:

$$WU = \frac{A}{B}$$

Where:

**WU** – water used by that Property

**A** - total quantity of water used by that Multi Premises

**B** - number of Properties within that Multi Premises.

### 6.3 Retirement Village

For a Retirement Village:

- (a) which is connected to the Water Supply System; and
- (b) which has a Common Water Meter or multiple Common Water Meters,

the maximum price that may be levied by the Council on that Retirement Village for the provision of water supply services to that Retirement Village is, for each Common Water Meter, the sum of the following:

- (c) subject to clause 7 of this schedule, the water service charge in Table 1, corresponding to the Meter size; and
- (d) the water usage charge in Table 2, per kL of water used.

## 7 Climate Change Fund

- 7.1 This clause 7 applies if and only if an order is made by the Minister under s34J of the EUA Act requiring the Council to make an annual contribution for a specified financial year to the Climate Change Fund.
- 7.2 The water service charges in Tables 1 and 3 of this Schedule (and only those charges) will be amended by the Council in accordance with clause 7.3 of this schedule for the financial year corresponding to the financial year specified in the order, so as to enable the Council to recover in that financial year (or in a subsequent financial year if clause 7.4 applies), the annual contribution specified in the order for that financial year.
- 7.3 The water service charges set out in Tables 1 and 3 will be increased for a financial year by an adjusted amount calculated as follows:

$$AA = \frac{CCFC}{NP}$$

Where:

**AA** – adjusted amount



**CCFC** – amount specified in an order made by the Minister under section 34J of the EUA Act requiring the Council to make a contribution to the Climate Change Fund for the financial year specified in the order

**NP** – number of Properties connected to the Water Supply System at the date that the calculation is made.

7.4 If an order is made:

- (a) after the Commencement Date, requiring the Council to make a contribution to the Climate Change Fund for the financial year commencing 1 July 2009;
- (b) before the Commencement Date, but at a time that does not enable the Council to apply clause 7.2 of this schedule on 1 July 2009; or
- (c) at any other time during this determination, requiring the Council to make a contribution to the Climate Change Fund for a financial year but the order is made either after the commencement of that financial year or alternatively before that financial year but at a time that does not enable the Council to apply clause 7.2 for that financial year,

then the Council may also recover in a subsequent financial year to the year specified in the order (but not before), the amount it would otherwise have been entitled to recover under clause 7.2 for the financial year specified in the order.

7.5 In calculating the adjusted amount in clause 7.3 of this schedule, the Council must, if notified in writing by IPART (but not otherwise), submit to IPART (by a time and in a manner specified by IPART), information to enable IPART to verify that the charges the Council proposes to levy in a financial year comply with clause 7 of this schedule.

7.6 If the Council is given a notice under clause 7.5 of this schedule, the Council must not levy any charges in a financial year until it receives written notice from IPART that IPART is satisfied that the charges the Council proposes to levy comply with clause 7 of this schedule.

## Tables 1, 2 and 3

**Table 1 Water service charges for a Metered Residential Property or a Metered Non Residential Property**

Charge	Commencement Date to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
	\$	\$	\$	\$
Water service charge (per year) – Meter size				
20mm	101.34	$104.82 \times (1+\Delta CPI_1)$	$105.94 \times (1+\Delta CPI_2)$	$106.89 \times (1+\Delta CPI_3)$
25mm	158.35	$163.79 \times (1+\Delta CPI_1)$	$165.52 \times (1+\Delta CPI_2)$	$167.02 \times (1+\Delta CPI_3)$
32mm	259.43	$268.35 \times (1+\Delta CPI_1)$	$271.19 \times (1+\Delta CPI_2)$	$273.65 \times (1+\Delta CPI_3)$
40mm	405.37	$419.29 \times (1+\Delta CPI_1)$	$423.74 \times (1+\Delta CPI_2)$	$427.57 \times (1+\Delta CPI_3)$
50mm	633.39	$655.14 \times (1+\Delta CPI_1)$	$662.10 \times (1+\Delta CPI_2)$	$668.08 \times (1+\Delta CPI_3)$
65mm	1,070.42	$1,107.19 \times (1+\Delta CPI_1)$	$1,118.94 \times (1+\Delta CPI_2)$	$1,129.06 \times (1+\Delta CPI_3)$
80mm	1,621.47	$1,677.17 \times (1+\Delta CPI_1)$	$1,694.97 \times (1+\Delta CPI_2)$	$1,710.29 \times (1+\Delta CPI_3)$
100mm	2,533.54	$2,620.58 \times (1+\Delta CPI_1)$	$2,648.39 \times (1+\Delta CPI_2)$	$2,672.34 \times (1+\Delta CPI_3)$
150mm	5,700.47	$5,896.30 \times (1+\Delta CPI_1)$	$5,958.87 \times (1+\Delta CPI_2)$	$6,012.75 \times (1+\Delta CPI_3)$
200mm	10,134.17	$10,482.31 \times (1+\Delta CPI_1)$	$10,593.55 \times (1+\Delta CPI_2)$	$10,689.34 \times (1+\Delta CPI_3)$
For Meter sizes not specified above, the following formula applies	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400

**Table 2 Water usage charge for a Metered Residential Property or a Metered Non Residential Property**

Charge	Commencement Date to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
	\$	\$	\$	\$
Water usage charge, per kilolitre of water used	1.76	$1.81 \times (1+\Delta CPI_1)$	$1.88 \times (1+\Delta CPI_2)$	$1.94 \times (1+\Delta CPI_3)$

**Table 3 Water service charge for Vacant Land**

<b>Charge</b>	<b>Commencement Date to 30 June 2010 \$</b>	<b>1 July 2010 to 30 June 2011 \$</b>	<b>1 July 2011 to 30 June 2012 \$</b>	<b>1 July 2012 to 30 June 2013 \$</b>
Water service charge (per year)	101.34	$104.82 \times (1 + \Delta CPI_1)$	$105.94 \times (1 + \Delta CPI_2)$	$106.89 \times (1 + \Delta CPI_3)$

## Schedule 2 Sewerage services

### 1 Application

This schedule sets the maximum prices that the Council may charge for the Monopoly Services under paragraph (b) of the Order (sewerage services).

### 2 Categories for pricing purposes

Prices for sewerage services have been determined for 5 categories:

- (a) Residential Properties;
- (b) Non Residential Properties;
- (c) Vacant Land;
- (d) Unmetered Properties; and
- (e) Multi Premises.

### 3 Charges for sewerage services to Residential Properties connected to the Sewerage System

The maximum price that may be levied by the Council for sewerage services to a Residential Property connected to the Sewerage System is the sewerage service charge in Table 4.

### 4 Charges for sewerage services to Non Residential Properties connected to the Sewerage System

The maximum price that may be levied by the Council for sewerage services to a Non Residential Property connected to the Sewerage System is the higher of:

- (a) the sewerage service charge in Table 5; and
- (b) the sum of:
  - (1) the sewerage service charge in Table 6, corresponding to the Meter size; and
  - (2) the sewerage usage charge in Table 7, per kilolitre of water used.

## 5 Charges for sewerage services to Vacant Land

The maximum price that may be levied by the Council for sewerage services to Vacant Land is the sewerage service charge in Table 8.

## 6 Charges for sewerage services to Unmetered Property

The maximum price that may be levied by the Council for sewerage services to an Unmetered Property is:

- (a) the sewerage service charge in Table 4 if the Unmetered Property is a Residential Property; and
- (b) the sewerage service charge in Table 5 if the Unmetered Property is a Non Residential Property.

## 7 Levying sewerage service charges on Multi Premises

### 7.1 Sewerage service charges for Multi Premises

- (a) This clause 7 prescribes how the maximum prices in this schedule are to be levied on Multi Premises.
- (b) Clauses 3 and 4 do not apply to Properties connected to the Sewerage System if this clause 7 is capable of applying to those Properties.

### 7.2 Multi Premises (other than a Retirement Village)

- (a) For a Multi Premises (other than a Retirement Village):
  - (1) which is connected to the Sewerage System;
  - (2) which has a Common Water Meter or multiple Common Water Meters; and
  - (3) where the majority of the Properties in that Multi Premises are Residential Properties,

the maximum price that may be levied by the Council for the provision of sewerage services to a Property within that Multi Premises is the sewerage service charge in Table 4 (with that Property taken to have a Meter size of 20mm).

- (b) For a Multi Premises (other than a Retirement Village):
  - (1) which is connected to the Sewerage System;
  - (2) which has a Common Water Meter or multiple Common Water Meters; and
  - (3) where the majority of the Properties in that Multi Premises are Non Residential Properties,

the maximum price that may be levied by the Council for the provision of sewerage services to a Property within that Multi Premises is the higher of:

- (4) the sewerage service charge in Table 5; and
- (5) the sum of:
  - (A) the sewerage service charge in Table 6 (with that Property taken to have a Meter size of 20mm); and
  - (B) the sewerage usage charge in Table 7, per kilolitre of water used.

### **7.3 Retirement Village**

For a Retirement Village:

- (a) which is connected to the Sewerage System; and
- (b) which has a Common Water Meter or multiple Common Water Meters,

the maximum price that may be levied by the Council on that Retirement Village for the provision of sewerage services to that Retirement Village is, for each Common Water Meter, the greater of:

- (c) the sewerage service charge in Table 5; and
- (d) the sum of:
  - (1) the sewerage service charge in Table 6, corresponding to the Meter size; and
  - (2) the sewerage usage charge in Table 7, per kilolitre of water used.

## Tables 4, 5, 6, 7 and 8

**Table 4 Sewerage service charge for a Residential Property**

Charge	Commencement Date to 30 June 2010 \$	1 July 2010 to 30 June 2011 \$	1 July 2011 to 30 June 2012 \$	1 July 2012 to 30 June 2013 \$
Sewerage service charge (per year)	453.28	$470.82 \times (1 + \Delta CPI_1)$	$489.00 \times (1 + \Delta CPI_2)$	$507.86 \times (1 + \Delta CPI_3)$

**Table 5 Sewerage service charges for a Non Residential Property**

Charge	Commencement Date to 30 June 2010 \$	1 July 2010 to 30 June 2011 \$	1 July 2011 to 30 June 2012 \$	1 July 2012 to 30 June 2013 \$
Sewerage service charge (per year)	453.28	$470.82 \times (1 + \Delta CPI_1)$	$489.00 \times (1 + \Delta CPI_2)$	$507.86 \times (1 + \Delta CPI_3)$

**Table 6 Sewerage service charge for a Non Residential Property**

Charge	Commencement Date to 30 June 2010 \$	1 July 2010 to 30 June 2011 \$	1 July 2011 to 30 June 2012 \$	1 July 2012 to 30 June 2013 \$
Sewerage service charge (per year) – Meter size				
20mm	338.88	$351.99 \times (1+\Delta CPI_1)$	$365.59 \times (1+\Delta CPI_2)$	$379.69 \times (1+\Delta CPI_3)$
25mm	529.50	$549.99 \times (1+\Delta CPI_1)$	$571.23 \times (1+\Delta CPI_2)$	$593.26 \times (1+\Delta CPI_3)$
32mm	867.53	$901.10 \times (1+\Delta CPI_1)$	$935.91 \times (1+\Delta CPI_2)$	$972.00 \times (1+\Delta CPI_3)$
40mm	1,355.52	$1,407.97 \times (1+\Delta CPI_1)$	$1,462.35 \times (1+\Delta CPI_2)$	$1,518.76 \times (1+\Delta CPI_3)$
50mm	2,118.00	$2,199.95 \times (1+\Delta CPI_1)$	$2,284.93 \times (1+\Delta CPI_2)$	$2,373.06 \times (1+\Delta CPI_3)$
65mm	3,579.42	$3,717.92 \times (1+\Delta CPI_1)$	$3,861.53 \times (1+\Delta CPI_2)$	$4,010.46 \times (1+\Delta CPI_3)$
80mm	5,422.08	$5,631.88 \times (1+\Delta CPI_1)$	$5,849.41 \times (1+\Delta CPI_2)$	$6,075.02 \times (1+\Delta CPI_3)$
100mm	8,472.01	$8,799.81 \times (1+\Delta CPI_1)$	$9,139.71 \times (1+\Delta CPI_2)$	$9,492.22 \times (1+\Delta CPI_3)$
150mm	19,062.02	$19,799.56 \times (1+\Delta CPI_1)$	$20,564.34 \times (1+\Delta CPI_2)$	$21,357.50 \times (1+\Delta CPI_3)$
200mm	33,888.03	$35,199.22 \times (1+\Delta CPI_1)$	$36,558.82 \times (1+\Delta CPI_2)$	$37,968.89 \times (1+\Delta CPI_3)$
For Meter sizes not specified above, the following formula applies	$(\text{Meter size})^2 \times 20\text{mm charge}/400$	$(\text{Meter size})^2 \times 20\text{mm charge}/400$	$(\text{Meter size})^2 \times 20\text{mm charge}/400$	$(\text{Meter size})^2 \times 20\text{mm charge}/400$

**Table 7 Sewerage usage charge for a Non Residential Property**

Charge	Commencement Date to 30 June 2010 \$	1 July 2010 to 30 June 2011 \$	1 July 2011 to 30 June 2012 \$	1 July 2012 to 30 June 2013 \$
Sewerage usage charge, per kilolitres of water used	$0.96 \times df\%$	$1.00 \times (1+\Delta CPI_1) \times df\%$	$1.03 \times (1+\Delta CPI_2) \times df\%$	$1.07 \times (1+\Delta CPI_3) \times df\%$

Note: a Discharge Factor is applied to the charge based on the volume of water discharged into the Sewerage System.



**Table 8 Sewerage service charge for Vacant Land**

<b>Charge</b>	<b>Commencement Date to 30 June 2010 \$</b>	<b>1 July 2010 to 30 June 2011 \$</b>	<b>1 July 2011 to 30 June 2012 \$</b>	<b>1 July 2012 to 30 June 2013 \$</b>
Sewerage service charge (per year)	453.28	$470.82 \times (1 + \Delta CPI_1)$	$489.00 \times (1 + \Delta CPI_2)$	$507.86 \times (1 + \Delta CPI_3)$

## Schedule 3 Stormwater drainage services

### 1 Application

This schedule sets the maximum prices that the Council may charge for services under paragraph (c) of the Order (stormwater drainage services).

### 2 Charges for stormwater drainage services to Residential Properties, Non Residential Properties, Vacant Land or Unmetered Properties

The maximum charge that may be levied by the Council for stormwater drainage services to:

- (a) a Metered Residential Property;
- (b) a Metered Non Residential Property;
- (c) a Multi Premises with a Common Water Meter;
- (d) Vacant Land; or
- (e) an Unmetered Property,

is the stormwater drainage charge in Table 9.

## Table 9

**Table 9 Stormwater drainage charge for Residential Properties, Non Residential Properties, Vacant Land and Unmetered Properties**

<b>Charge</b>	<b>Commencement Date to 30 June 2010 \$</b>	<b>1 July 2010 to 30 June 2011 \$</b>	<b>1 July 2011 to 30 June 2012 \$</b>	<b>1 July 2012 to 30 June 2013 \$</b>
Stormwater drainage charge (per year)	67.03	$70.05 \times (1 + \Delta CPI_1)$	$73.21 \times (1 + \Delta CPI_2)$	$76.52 \times (1 + \Delta CPI_3)$

## Schedule 4 Trade waste services

### 1 Application

This schedule sets the maximum prices that the Council may charge for the Monopoly Services under paragraph (d) of the Order (trade waste services).

### 2 Categories for pricing purposes

#### 2.1 Charges for 3 categories

Prices for trade waste services have been determined for 3 categories:

- (a) Category 1 Trade Waste Discharge;
- (b) Category 2 Trade Waste Discharge; and
- (c) Category 3 Trade Waste Discharge.

#### 2.2 Category 1 Trade Waste Discharge

The maximum price for Category 1 Trade Waste Discharge that may be levied by the Council is represented by the following formula:

$$TW1 = A1 + I$$

Where:

**TW1** - maximum price for Category 1 Trade Waste Discharge

**A1** - Category 1 trade waste agreement fee (\$)

**I** - Liquid trade waste re-inspection fee (\$) (if applicable)

each as set out in Table 10.

#### 2.3 Category 2 Trade Waste Discharge

The maximum price for Category 2 Trade Waste Discharge that may be levied by the Council is represented by the following formula:

$$TW2 = A2 + I + [(C \times TWDF) \times UC_{tw}]$$

Where:

**TW2** - maximum price for Category 2 Trade Waste Discharge

**A2** - Category 2 trade waste agreement fee (\$)

**I** - Liquid trade waste re-inspection fee (\$) (if applicable)

**UC<sub>tw</sub>** - Trade waste usage charge (\$/kL) or the charge for lack of pre-treatment facility (\$/kL) (as the case may be)

each as set out in Table 10.

**C** - Customer annual water consumption (kL)

**TWDF** - Trade Waste Discharge Factor (%)

## 2.4 Category 3 Trade Waste Discharge

The maximum price for Category 3 Trade Waste Discharge that may be levied by the Council is the higher of the price as calculated by applying the formula in clause 2.3 above and the price as represented by the following formula:

$$TW3 = A3 + I + EMC$$

Where:

**TW3** - maximum price for Category 3 Trade Waste Discharge

**A3** Category 3 trade waste agreement fee (\$)

**I** - Liquid trade waste re - inspection fee (\$) (if applicable)

each as set out in Table 10.

**EMC** - Total excess mass charge (\$) as set out in Table 11.

## Tables 10 and 11

**Table 10 Trade waste charges**

Charge	Commencement Date to 30 June 2010 \$	1 July 2010 to 30 June 2011 \$	1 July 2011 to 30 June 2012 \$	1 July 2012 to 30 June 2013 \$
Trade waste usage charge (\$/kL)	1.45	$1.45 \times (1+\Delta\text{CPI}_1)$	$1.45 \times (1+\Delta\text{CPI}_2)$	$1.45 \times (1+\Delta\text{CPI}_3)$
Category 1 trade waste agreement fee (\$/year)	106.50	$138.23 \times (1+\Delta\text{CPI}_1)$	$169.95 \times (1+\Delta\text{CPI}_2)$	$169.95 \times (1+\Delta\text{CPI}_3)$
Category 2 trade waste agreement fee (\$/year)	156.29	$237.80 \times (1+\Delta\text{CPI}_1)$	$319.30 \times (1+\Delta\text{CPI}_2)$	$319.30 \times (1+\Delta\text{CPI}_3)$
Category 3 trade waste agreement fee (\$/year)	187.19	$299.60 \times (1+\Delta\text{CPI}_1)$	$412.00 \times (1+\Delta\text{CPI}_2)$	$412.00 \times (1+\Delta\text{CPI}_3)$
Liquid trade waste re-inspection fee (\$/year)	127.28	$127.28 \times (1+\Delta\text{CPI}_1)$	$127.28 \times (1+\Delta\text{CPI}_2)$	$127.28 \times (1+\Delta\text{CPI}_3)$
Charge for lack of pre-treatment facility (\$/kL)	12.35	$12.35 \times (1+\Delta\text{CPI}_1)$	$12.35 \times (1+\Delta\text{CPI}_2)$	$12.35 \times (1+\Delta\text{CPI}_3)$

**Table 11 Excess mass charges**

Pollutant	Commencement Date to 30 June 2010 \$	1 July 2010 to 30 June 2011 \$	1 July 2011 to 30 June 2012 \$	1 July 2012 to 30 June 2013 \$
Aluminium (Al)	0.60	$0.60 \times (1+\Delta\text{CPI}_1)$	$0.60 \times (1+\Delta\text{CPI}_2)$	$0.60 \times (1+\Delta\text{CPI}_3)$
Ammonia (as N)	1.79	$1.79 \times (1+\Delta\text{CPI}_1)$	$1.79 \times (1+\Delta\text{CPI}_2)$	$1.79 \times (1+\Delta\text{CPI}_3)$
Arsenic (As)	60.61	$60.61 \times (1+\Delta\text{CPI}_1)$	$60.61 \times (1+\Delta\text{CPI}_2)$	$60.61 \times (1+\Delta\text{CPI}_3)$
Barium (Ba)	30.30	$30.30 \times (1+\Delta\text{CPI}_1)$	$30.30 \times (1+\Delta\text{CPI}_2)$	$30.30 \times (1+\Delta\text{CPI}_3)$
Biological Oxygen Demand (BOD5)	1.45	$1.45 \times (1+\Delta\text{CPI}_1)$	$1.45 \times (1+\Delta\text{CPI}_2)$	$1.45 \times (1+\Delta\text{CPI}_3)$
Boron (B)	0.60	$0.60 \times (1+\Delta\text{CPI}_1)$	$0.60 \times (1+\Delta\text{CPI}_2)$	$0.60 \times (1+\Delta\text{CPI}_3)$
Bromine (Br <sub>2</sub> )	12.35	$12.35 \times (1+\Delta\text{CPI}_1)$	$12.35 \times (1+\Delta\text{CPI}_2)$	$12.35 \times (1+\Delta\text{CPI}_3)$
Cadmium (Cd)	280.56	$280.56 \times (1+\Delta\text{CPI}_1)$	$280.56 \times (1+\Delta\text{CPI}_2)$	$280.56 \times (1+\Delta\text{CPI}_3)$
Chlorinated Hydrocarbons	30.30	$30.30 \times (1+\Delta\text{CPI}_1)$	$30.30 \times (1+\Delta\text{CPI}_2)$	$30.30 \times (1+\Delta\text{CPI}_3)$
Chlorinated	1234.49	$1,234.49 \times$	$1,234.49 \times$	$1,234.49 \times$

<b>Pollutant</b>	<b>Commencement Date to 30 June 2010 \$</b>	<b>1 July 2010 to 30 June 2011 \$</b>	<b>1 July 2011 to 30 June 2012 \$</b>	<b>1 July 2012 to 30 June 2013 \$</b>
Phenolics		(1+ΔCPI <sub>1</sub> )	(1+ΔCPI <sub>2</sub> )	(1+ΔCPI <sub>3</sub> )
Chloride	No charge	No charge	No charge	No charge
Chlorine (Cl <sub>2</sub> )	1.24	1.24 x (1+ΔCPI <sub>1</sub> )	1.24 x (1+ΔCPI <sub>2</sub> )	1.24 x (1+ΔCPI <sub>3</sub> )
Chromium (Cr) (Total)#	20.20	20.20 x (1+ΔCPI <sub>1</sub> )	20.20 x (1+ΔCPI <sub>2</sub> )	20.20 x (1+ΔCPI <sub>3</sub> )
Cobalt (Co)	12.35	12.35 x (1+ΔCPI <sub>1</sub> )	12.35 x (1+ΔCPI <sub>2</sub> )	12.35 x (1+ΔCPI <sub>3</sub> )
Copper (Cu)	12.35	12.35 x (1+ΔCPI <sub>1</sub> )	12.35 x (1+ΔCPI <sub>2</sub> )	12.35 x (1+ΔCPI <sub>3</sub> )
Cyanide	60.61	60.61 x (1+ΔCPI <sub>1</sub> )	60.61 x (1+ΔCPI <sub>2</sub> )	60.61 x (1+ΔCPI <sub>3</sub> )
Flouride (F)	3.03	3.03 x (1+ΔCPI <sub>1</sub> )	3.03 x (1+ΔCPI <sub>2</sub> )	3.03 x (1+ΔCPI <sub>3</sub> )
Formaldehyde	1.24	1.24 x (1+ΔCPI <sub>1</sub> )	1.24 x (1+ΔCPI <sub>2</sub> )	1.24 x (1+ΔCPI <sub>3</sub> )
Grease	7.50	7.50 x (1+ΔCPI <sub>1</sub> )	7.50 x (1+ΔCPI <sub>2</sub> )	7.50 x (1+ΔCPI <sub>3</sub> )
Herbicides/Weedi cides/Fungicides	606.02	606.02 x (1+ΔCPI <sub>1</sub> )	606.02 x (1+ΔCPI <sub>2</sub> )	606.02 x (1+ΔCPI <sub>3</sub> )
Iron (Fe)	1.24	1.24 x (1+ΔCPI <sub>1</sub> )	1.24 x (1+ΔCPI <sub>2</sub> )	1.24 x (1+ΔCPI <sub>3</sub> )
Lead (Pb)	30.30	30.30 x (1+ΔCPI <sub>1</sub> )	30.30 x (1+ΔCPI <sub>2</sub> )	30.30 x (1+ΔCPI <sub>3</sub> )
Lithium (Li)	6.07	6.07 x (1+ΔCPI <sub>1</sub> )	6.07 x (1+ΔCPI <sub>2</sub> )	6.07 x (1+ΔCPI <sub>3</sub> )
Methylene Blue Active Substances (MBAS)	0.60	0.60 x (1+ΔCPI <sub>1</sub> )	0.60 x (1+ΔCPI <sub>2</sub> )	0.60 x (1+ΔCPI <sub>3</sub> )
Manganese (Mn)	6.07	6.07 x (1+ΔCPI <sub>1</sub> )	6.07 x (1+ΔCPI <sub>2</sub> )	6.07 x (1+ΔCPI <sub>3</sub> )
Mercury (Hg)	2020.08	2,020.08 x (1+ΔCPI <sub>1</sub> )	2,020.08 x (1+ΔCPI <sub>2</sub> )	2,020.08 x (1+ΔCPI <sub>3</sub> )
Molybdenum (Mo)	0.60	0.60 x (1+ΔCPI <sub>1</sub> )	0.60 x (1+ΔCPI <sub>2</sub> )	0.60 x (1+ΔCPI <sub>3</sub> )
Nickel (Ni)	20.20	20.20 x (1+ΔCPI <sub>1</sub> )	20.20 x (1+ΔCPI <sub>2</sub> )	20.20 x (1+ΔCPI <sub>3</sub> )
Nitrogen (N) (Total Kjeldahl Nitrogen)	0.15	0.15 x (1+ΔCPI <sub>1</sub> )	0.15 x (1+ΔCPI <sub>2</sub> )	0.15 x (1+ΔCPI <sub>3</sub> )
Pentachlorophen ol	1234.49	1,234.49 x (1+ΔCPI <sub>1</sub> )	1,234.49 x (1+ΔCPI <sub>2</sub> )	1,234.49 x (1+ΔCPI <sub>3</sub> )
Pesticides – General	606.02	606.02 x (1+ΔCPI <sub>1</sub> )	606.02 x (1+ΔCPI <sub>2</sub> )	606.02 x (1+ΔCPI <sub>3</sub> )
Pesticides – Organochlorine	606.02	606.02 x (1+ΔCPI <sub>1</sub> )	606.02 x (1+ΔCPI <sub>2</sub> )	606.02 x (1+ΔCPI <sub>3</sub> )
Pesticides – Organophosphate	606.02	606.02 x (1+ΔCPI <sub>1</sub> )	606.02 x (1+ΔCPI <sub>2</sub> )	606.02 x (1+ΔCPI <sub>3</sub> )
PCB	606.02	606.02 x (1+ΔCPI <sub>1</sub> )	606.02 x (1+ΔCPI <sub>2</sub> )	606.02 x (1+ΔCPI <sub>3</sub> )
Petroleum Hydrocarbons (non-flammable)	2.03	2.03 x (1+ΔCPI <sub>1</sub> )	2.03 x (1+ΔCPI <sub>2</sub> )	2.03 x (1+ΔCPI <sub>3</sub> )
pH>10, or pH<7	0.60	0.60 x (1+ΔCPI <sub>1</sub> )	0.60 x (1+ΔCPI <sub>2</sub> )	0.60 x (1+ΔCPI <sub>3</sub> )

<b>Pollutant</b>	<b>Commencement Date to 30 June 2010 \$</b>	<b>1 July 2010 to 30 June 2011 \$</b>	<b>1 July 2011 to 30 June 2012 \$</b>	<b>1 July 2012 to 30 June 2013 \$</b>
Phenolic Compounds (excluding chlorinated)	6.07	$6.07 \times (1+\Delta CPl_1)$	$6.07 \times (1+\Delta CPl_2)$	$6.07 \times (1+\Delta CPl_3)$
Phosphorus (Total)	1.24	$1.24 \times (1+\Delta CPl_1)$	$1.24 \times (1+\Delta CPl_2)$	$1.24 \times (1+\Delta CPl_3)$
Polynuclear Aromatic Hydrocarbons (PAH)	12.35	$12.35 \times (1+\Delta CPl_1)$	$12.35 \times (1+\Delta CPl_2)$	$12.35 \times (1+\Delta CPl_3)$
Selenium (Se)	42.64	$42.64 \times (1+\Delta CPl_1)$	$42.64 \times (1+\Delta CPl_2)$	$42.64 \times (1+\Delta CPl_3)$
Silver (Ag)	12.35	$12.35 \times (1+\Delta CPl_1)$	$12.35 \times (1+\Delta CPl_2)$	$12.35 \times (1+\Delta CPl_3)$
Sulphate (SO <sub>4</sub> )	0.12	$0.12 \times (1+\Delta CPl_1)$	$0.12 \times (1+\Delta CPl_2)$	$0.12 \times (1+\Delta CPl_3)$
Sulphide (S)	1.24	$1.24 \times (1+\Delta CPl_1)$	$1.24 \times (1+\Delta CPl_2)$	$1.24 \times (1+\Delta CPl_3)$
Sulphite (SO <sub>3</sub> )	1.24	$1.24 \times (1+\Delta CPl_1)$	$1.24 \times (1+\Delta CPl_2)$	$1.24 \times (1+\Delta CPl_3)$
Suspended Solids (SS or NFR)	1.45	$1.45 \times (1+\Delta CPl_1)$	$1.45 \times (1+\Delta CPl_2)$	$1.45 \times (1+\Delta CPl_3)$
Temperature	No charge	No charge	No charge	No charge
Tin (Sn)	6.07	$6.07 \times (1+\Delta CPl_1)$	$6.07 \times (1+\Delta CPl_2)$	$6.07 \times (1+\Delta CPl_3)$
Total Dissolved Solids	0.04	$0.04 \times (1+\Delta CPl_1)$	$0.04 \times (1+\Delta CPl_2)$	$0.04 \times (1+\Delta CPl_3)$
Zinc (Zn)	12.35	$12.35 \times (1+\Delta CPl_1)$	$12.35 \times (1+\Delta CPl_2)$	$12.35 \times (1+\Delta CPl_3)$



## Schedule 5 Ancillary and miscellaneous customer services

### 1 Application

This schedule sets the maximum prices that the Council may charge for services under paragraph (f) of the Order (ancillary and miscellaneous customer services for which no alternative supply exists).

### 2 Ancillary and miscellaneous charges

- (a) The maximum charge that may be levied by the Council for an ancillary and miscellaneous service in column 2 of Table 12 is:
  - (1) **from the Commencement Date to 30 June 2010** - the corresponding charge in column 3 of Table 12;
  - (2) **from 1 July 2010 to 30 June 2011** - the corresponding charge in column 4 of Table 12 multiplied by  $(1 + \Delta\text{CPI}_1)$ ;
  - (3) **from 1 July 2011 to 30 June 2012** - the corresponding charge in column 5 of Table 12 multiplied by  $(1 + \Delta\text{CPI}_2)$ ; and
  - (4) **from 1 July 2012 to 30 June 2013** - the corresponding charge in column 6 of Table 12 multiplied by  $(1 + \Delta\text{CPI}_3)$ .
- (b) A reference in Table 12 to "NA" means that the Council does not provide the relevant service.

## Table 12

**Table 12 Charges for ancillary and miscellaneous services**

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
No		Commence- ment Date to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
<b>1</b>	<b>Conveyancing Certificate</b> (Statement of Outstanding Charges)				
	a) Over the Counter	\$30.65	\$30.65	\$30.65	\$30.65
	b) Electronic	NA	NA	NA	NA
<b>2</b>	<b>Property Sewerage Diagram-up to and including A4 size- (where available)</b> (Diagram showing the location of the house- service line, building and sewer for a property)				
	a) Certified	\$42.70	\$42.70	\$42.70	\$42.70
	b) Uncertified				
	i. Over the Counter	\$32.85	\$32.85	\$32.85	\$32.85
	ii. Electronic	NA	NA	NA	NA
<b>3</b>	<b>Service Location Diagram</b> (Location of sewer and/or Water Mains in relation to a property's boundaries)				
	a) Over the Counter	\$16.43	\$16.43	\$16.43	\$16.43
	b) Electronic	NA	NA	NA	NA
<b>4</b>	<b>Special Meter Reading Statement</b>	\$60.22	\$60.22	\$60.22	\$60.22
<b>5</b>	<b>Billing Record Search Statement – up to and including 5 years.</b>	\$19.38	\$19.38	\$19.38	\$19.38
<b>6</b>	<b>Building over or Adjacent to Sewer Advice</b> (Statement of Approval)	\$0.00	\$0.00	\$0.00	\$0.00

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
No		Commence- ment Date to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
	Status for existing Building Over or Adjacent to a Sewer)				
<b>7</b>	<b>Water Reconnection</b>				
	a) During business hours	\$61.32	\$61.32	\$61.32	\$61.32
	b) Outside business hours	\$142.34	\$142.34	\$142.34	\$142.34
<b>8</b>	<b>Workshop Test of Water Meter</b>				
	(Removal of the meter by an accredited organisation at the customer's request to determine the accuracy of the water meter.				
	(A separate charge relating to transportation costs and the full mechanical test which involves dismantling and inspection of meter components will also be payable)				
	20mm	\$146.71	\$146.71	\$146.71	\$146.71
	25mm	\$146.71	\$146.71	\$146.71	\$146.71
	32mm	\$146.71	\$146.71	\$146.71	\$146.71
	40mm	\$146.71	\$146.71	\$146.71	\$146.71
	50mm	\$146.71	\$146.71	\$146.71	\$146.71
	80mm	\$146.71	\$146.71	\$146.71	\$146.71
	100mm	NA	NA	NA	NA
	150mm	NA	NA	NA	NA
<b>9</b>	<b>Water main disconnection</b>				
	a) Application for Disconnection-(all sizes)	\$44.89	\$44.89	\$44.89	\$44.89
	b) Physical Disconnection	\$179.56	\$179.56	\$179.56	\$179.56
	Price payable when customer requests Council to disconnect existing service				

Table 12

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
No		Commence- ment Date to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
10	<b>Application for Water Service Connection-(up to and including 25mm)</b>	\$44.89	\$44.89	\$44.89	\$44.89
11	<b>Application for Water Service Connection-(32-65mm)</b> (This covers administration and system capacity analysis as required. There will be a separate charge payable to the utility if they also perform the physical connection)	\$44.89	\$44.89	\$44.89	\$44.89
12	<b>Application for Water Service Connection-(80mm or greater)</b> (This covers administration and system capacity analysis as required. There will be a separate charge payable to the utility if they also perform the physical connection)	\$44.89	\$44.89	\$44.89	\$44.89
13	<b>Application to assess a Water main Adjustment</b> (Moving a fitting and/or adjusting a section of water main up to and including 25 metres in length)  This covers preliminary advice as to the feasibility of the project and will result in either:  1. A rejection of the project in which cases the fee covers the associated investigation costs  Or  2. Conditional approval in which case the fee	\$307.66	\$307.66	\$307.66	\$307.66

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
No		Commence- ment Date to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
	covers the administrative costs associated with the investigation and record amendment.				
<b>14</b>	<b>Standpipe Hire</b>				
	Security Bond (25mm)	\$656.93	\$656.93	\$656.93	\$656.93
	Security Bond (63mm)	\$656.93	\$656.93	\$656.93	\$656.93
<b>15</b>	<b>Standpipe Hire</b>				
	< 50mm	As per the 20mm meter size water service charge in Table 1	As per the 20mm meter size water service charge in Table 1	As per the 20mm meter size water service charge in Table 1	As per the 20mm meter size water service charge in Table 1
	>= 50mm	As per the 50mm meter size water service charge in Table 1	As per the 50mm meter size water service charge in Table 1	As per the 50mm meter size water service charge in Table 1	As per the 50mm meter size water service charge in Table 1
<b>16</b>	<b>Standpipe Water Usage Fee - (\$ per kL)</b>	As per water usage charge in Table 2	As per water usage charge in Table 2	As per water usage charge in Table 2	As per water usage charge in Table 2
<b>17</b>	<b>Backflow Prevention Device Application and Registration Fee</b> (This fee is for initial registration of the backflow device)	\$65.69	\$65.69	\$65.69	\$65.69
<b>18</b>	<b>Backflow Prevention Application Device Annual Administration Fee</b> (This fee is for the maintenance of records including logging of inspection reports)	\$27.38	\$27.38	\$27.38	\$27.38
<b>19</b>	<b>Major and Minor Works Inspections Fee.</b> (This fee is for the inspection, for the purposes of approval of				

Table 12

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
No		Commence- ment Date to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
	water and sewer mains, constructed by others, that are longer than 25 metres and/or greater than 2 metres in depth)				
	Water Mains (\$ per metre)	\$10.95	\$10.95	\$10.95	\$10.95
	Sewer Mains (\$per Metre)	\$10.95	\$10.95	\$10.95	\$10.95
	Reinspection	\$129.19	\$129.19	\$129.19	\$129.19
20	<b>Statement of Available Pressure and Flow</b>  (This fee covers all levels whether modelling is required or not)	\$128.10	\$128.10	\$128.10	\$128.10
21	<b>Cancellation Fee – Water and Sewerage Applications</b>  A fee charged to cancel an application for services and process a refund of water and sewer application fees.	\$56.11	\$56.11	\$56.11	\$56.11
22	<b>Sales of Building Over Sewer and Water Guidelines</b>  A fee for undertaking a technical review of guidelines to ensure that current standards are applied when a proposal to build over or near council sewer and water mains is lodged.	\$11.06	\$11.06	\$11.06	\$11.06
23	<b>Section 307 Certificate</b>  A fee for preparation of a Section 307 Certificate which states whether a development complies with the Water Management Act 2000.				
	Dual Occupancies	\$99.63	\$99.63	\$99.63	\$99.63
	Commercial Buildings, Factories, Torrens Subdivision of Dual	\$148.91	\$148.91	\$148.91	\$148.91

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
No		Commence- ment Date to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
	Occupancy				
	Boundary Realign with Conditions	\$240.88	\$240.88	\$240.88	\$240.88
	Subdivisions, developments involving mains extensions	\$716.06	\$716.06	\$716.06	\$716.06
	Development without Requirement Fee	\$59.12	\$59.12	\$59.12	\$59.12
24	<b>Inspection of Concrete Encasement and Additional Junction Cut-ins</b>				
	A fee charged by Council to inspect a developer's works to determine whether works are in accordance with Council standards.				
	Inspection of concrete encasement	\$165.33	\$165.33	\$165.33	\$165.33
	Additional inspection (due to non compliance)	\$58.03	\$58.03	\$58.03	\$58.03
	Inspection of concrete encasement greater than 10m	\$165.33 +	\$165.33 +	\$165.33 +	\$165.33 +
		\$16.53/m for each m > 10m	\$16.53/m for each m > 10m	\$16.53/m for each m > 10m	\$16.53/m for each m > 10m
25	<b>Sale of Specification for Construction of Water and Sewerage Works by Private Contractors</b>				
	Contractors carrying out private works are required to purchase Council's "Specifications for Construction of Water and Sewerage Works by Private Contractors"	\$88.25	\$88.25	\$88.25	\$88.25
26	<b>Private Developers Plan Resubmission</b>	\$66.79 first hour	\$66.79 first hour	\$66.79 first hour	\$66.79 first hour
		\$42.70 each hour after	\$42.70 each hour after	\$42.70 each hour after	\$42.70 each hour after
	A fee for Council review and approval of a				

Table 12

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
No		Commence- ment Date to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
	developer's request for changes to a previously approved water or sewer plan.				
27	<b>Approval of Developers Sewer Pump Station Rising Main Design</b>  A fee for Council review and approval of a private developer's proposal for provision of sewer; pump stations/rising mains. This fee covers assessment of: i) suitability for integration within the existing sewerage system. ii) proposed works conform to both industry and Council standards.	\$250.73	\$250.73	\$250.73	\$250.73
28	<b>Approval of Private Internal Residential Sewer Pump Station Rising Main Design</b>  A fee for Council review of a property owner's proposal for provision of minor internal sewer; pump stations/rising mains. This fee covers assessment of: i) suitability for integration within the existing sewerage system. ii) proposed works conform to both industry and Council standards.	\$97.45	\$97.45	\$97.45	\$97.45
29	<b>Approval of Extension of Sewer/Water Mains to Properties Outside Service Areas</b>  A fee for Council review and approval of a property owner's application for extension	\$135.76	\$135.76	\$135.76	\$135.76



Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
No		Commence- ment Date to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
	of sewer/water mains to properties outside service areas.				
<b>30</b>	<b>Sale of Sewer Plan Books</b>  A fee for purchase of Council hardcopy set of sewer reticulation plans.  A3 sheet in cardboard folder  A3 sheet in plastic pockets (3 folders)  Annual charge for monthly updating service  CD	NA  NA  NA  \$72.26	NA  NA  NA  \$72.26	NA  NA  NA  \$72.26	NA  NA  NA  \$72.26
<b>31</b>	<b>Trade Waste Approvals</b>  A fee for Council inspection of a commercial or industrial development prior to approval for discharging into Council's sewers being granted.	\$273.54	\$306.21	\$338.87	\$338.87
<b>32</b>	<b>Sewer Connection fees</b>  A fee for Council inspection of developments requiring connection to, or alteration to existing connection to Council's sewer to ensure protection of Council's sewerage system.  New sewer connection Plus each additional WC Alterations Units/Villas (1 WC each flat or unit) Plus for each additional WC Caravan Connection Fee Sewer Re-Inspection Fee	\$210.22 \$81.02 \$145.62 \$162.04 \$81.02 \$97.45 \$105.11	\$210.22 \$81.02 \$145.62 \$162.04 \$81.02 \$97.45 \$105.11	\$210.22 \$81.02 \$145.62 \$162.04 \$81.02 \$97.45 \$105.11	\$210.22 \$81.02 \$145.62 \$162.04 \$81.02 \$97.45 \$105.11

Table 12

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
No		Commence- ment Date to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
<b>33</b>	<b>Location of Water and Sewer Mains</b>  Private developers/contractors request the on-site indication of the alignment, and often depth, of water and sewer mains and services.  This service will be charged on the basis of actual costs incurred by the Council. Applicants should contact Council for an estimate of actual cost. A minimum charge of \$193.80 will apply	No maximum charge set	No maximum charge set	No maximum charge set	No maximum charge set
<b>34</b>	<b>Water Service Connection Fee - (20-25mm meter)</b>  For meters greater than 25mm charges will be levied on the actual cost of the work involved plus  An admin fee	\$340.51  \$44.89	\$340.51  \$44.89	\$340.51  \$44.89	\$340.51  \$44.89
<b>35</b>	<b>Septic/Portaloo/Mobile Cleaning Charge</b>  A fee for accepting septic, portaloo and mobile cleaning effluent at Council sewage disposal sites	\$12.35	\$12.35	\$12.35	\$12.35
<b>36</b>	<b>Other liquid wastes transported by disposal contractors (per kL)</b>  A fee for accepting other liquid wastes at Council sewage disposal sites	\$1.35	\$1.35	\$1.35	\$1.35
<b>37</b>	<b>Recoverable works</b>  This service will be charged on the basis of actual costs incurred by the Council plus internal	No maximum charge set	No maximum charge set	No maximum charge set	No maximum charge set

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
		Commence- ment Date to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
No	overheads charged in accordance with the rates published annually by the Council. Applicants should contact Council for an estimate of the cost.				

## Schedule 6 Statement of Reasons under section 13A(3) IPART Act

Under s13A of the IPART Act, IPART may set maximum prices, determine a methodology for setting maximum prices or both. In this determination, IPART has set maximum prices for each year of the regulatory period, and has included a methodology for fixing the maximum price for water service charges if Council is required by order of the Minister for Climate Change and the Environment to make an annual contribution under s34J of the EUA Act to the Climate Change Fund.

IPART is of the opinion that any contribution by the Council to the Climate Change Fund should be incorporated into the water service charges. However, no order has been made at the date of publication of this determination. By setting a methodology, IPART is able to provide for a contribution to the Climate Change Fund to be included in the water service charges, were an order to be made after publication of this determination.

## Schedule 7 Definitions and Interpretations

### 1 Definitions

#### 1.1 General definitions

In this determination:

**Category 1 Trade Waste Discharge** means:

- (a) an activity deemed by Council as requiring nil or minimal pre-treatment equipment and whose effluent is well defined and/or is a relatively benign nature;
- (b) such activity is being conducted on a Non Residential Property; and
- (c) the trade waste from such activity is being discharged into the Sewerage System.

**Category 2 Trade Waste Discharge** means:

- (a) an activity deemed by Council as requiring a prescribed type of liquid trade waste pre-treatment equipment and whose effluent is well characterised;
- (b) such activity is being conducted on a Non Residential Property; and
- (c) the trade waste from such activity is being discharged into the Sewerage System.

**Category 3 Trade Waste Discharge** means:

- (a) an activity deemed by Council as an industrial nature and/or which results in large volumes of liquid trade waste;
- (b) such activity is being conducted on a Non Residential Property; and
- (c) the trade waste from such activity is being discharged into the Sewerage System.

**Climate Change Fund** means the climate change fund established under the EUA Act or such other fund which replaces, or substantially replaces, this fund.

**Commencement Date** is defined in clause 2(b) of the *Preliminary* section of this determination.

**Common Water Meter** means a Meter which is connected or available for connection to a Multi Premises, where the Meter measures the water usage to that Multi Premises but not to each relevant Property located on or within that Multi Premises.

**Community Development Lot** has the meaning given to that term under the *Community Land Development Act 1989* (NSW).

**Company Title Building** means a building owned by a company where the issued shares of the company entitle the legal owner to exclusive occupation of a specified dwelling within that building.

**Company Title Dwelling** means a dwelling within a Company Title Building.

**Council** means the Council as defined in clause 1(b) of the *Preliminary* section of this determination.

**df% or Discharge Factor** means, in relation to a Property, the percentage of water supplied to that Property which the Council assesses or deems to be discharged into the Sewerage System.

**EUA Act** means the *Energy and Utilities Administration Act 1987* (NSW).

**Gosford Ordinance** means the Gosford Planning Scheme Ordinance dated 12 December 2008, as amended or updated from time to time.

**GST** means the Goods and Services Tax as defined in *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

**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).

**kL** means kilolitre or one thousand litres.

**Local Government Act** means the *Local Government Act 1993* (NSW).

**Meter** means an apparatus for the measurement of water.

**Metered Non Residential Property** means a Non Residential Property that is serviced by a Meter.

**Metered Property** means a Metered Residential Property or a Metered Non-Residential Property.

**Metered Residential Property** means a Residential Property that is serviced by a Meter.

**Monopoly Services** means the Monopoly Services as defined in clause 1(b) of the Preliminary section of this determination.

**Multi Premises** means land where there are two or more Properties (other than Properties which fall within paragraph (f) of the definition of 'Property') located on it, excluding land where there are hotels, motels, guest houses or backpacker hostels, each as determined by the Council under the Gosford Ordinance, located on it.

**Non Residential Property** means a Property that is not a Residential Property or a Vacant Land or an Unmetered Property.

**Order** means the Order defined in clause 1(b) of the *Preliminary* section of this determination and published in Government Gazette No. 18 on 14 February 1997.

**Property** includes:

- (a) a Strata Title Lot;
- (b) a Company Title Dwelling;
- (c) a Community Development Lot;
- (d) a Retirement Village Unit;
- (e) a part of a building lawfully occupied or available for occupation (other than a building to which paragraphs (a) to (d) inclusive apply); or
- (f) land.

**Rateable Land** has the meaning given to that term under the Local Government Act.

**Residential Property means a Property where:**

- (a) in the case of that Property being Rateable Land, that Property is categorised as:
  - (1) residential under section 516 of the Local Government Act; or
  - (2) farmland under section 515 of the Local Government Act and such farmland is connected to the Water Supply System and the Sewerage System; or
- (b) in the case of that Property not being Rateable Land, the dominant use of that Property is residential applying the classifications in section 516 of the Local Government Act.

**Retirement Village** has the meaning given to that term under the *Retirement Villages Act 1999* (NSW).

**Retirement Village Unit** means a unit located within a Retirement Village.

**Sewerage System** means the sewerage system owned and operated by the Council.

**Strata Title Lot** means a lot as defined under the *Strata Schemes (Freehold Development) Act 1973* (NSW).

**Trade Waste Discharge Factor** means the percentage of trade waste which the Council assesses or deems to be discharged into the Sewerage System.

**Unmetered Property** means land which is connected to the Water Supply System or Sewerage System but does not have a Meter located on it.

**Vacant Land** means land which is not connected to a Water Supply System or a Sewerage System but is reasonably available for connection to that Water Supply System or that Sewerage System.

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

**Water Supply System** means the water supply system owned and operated by the Council.

## 1.2 Consumer Price Index

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

$$(b) \Delta CPI_1 = \left( \frac{CPI_{Jun2009} + CPI_{Sep2009} + CPI_{Dec2009} + CPI_{Mar2010}}{CPI_{Jun2008} + CPI_{Sep2008} + CPI_{Dec2008} + CPI_{Mar2009}} \right) - 1$$

$$\Delta CPI_2 = \left( \frac{CPI_{Jun2010} + CPI_{Sep2010} + CPI_{Dec2010} + CPI_{Mar2011}}{CPI_{Jun2008} + CPI_{Sep2008} + CPI_{Dec2008} + CPI_{Mar2009}} \right) - 1$$

$$\Delta CPI_3 = \left( \frac{CPI_{Jun2011} + CPI_{Sep2011} + CPI_{Dec2011} + CPI_{Mar2012}}{CPI_{Jun2008} + CPI_{Sep2008} + CPI_{Dec2008} + CPI_{Mar2009}} \right) - 1$$

each as calculated by IPART and notified in writing by IPART to the Council.



- (c) The subtext (for example <sub>Jun 2008</sub>) when used in relation to paragraph (b) above means the CPI for the quarter and year indicated (in the example the June quarter for 2008).

## **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, annexure, clause or table is a reference to a schedule, annexure, clause or table to this determination;
- (c) words importing the singular include the plural and vice versa;
- (d) a reference to a law or statute includes all amendments or replacements of that law or statute;
- (e) a reference to an officer includes a reference to the officer which replaces him or her or which substantially succeeds to his or her powers or functions;
- (f) a reference to a body, whether statutory or not:
  - (i) which ceases to exist; or
  - (ii) 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 as if that clarification notice formed part of this determination.

### **2.3 Prices exclusive of GST**

Prices or charges specified in this determination do not include GST.

## **2.4 Billing cycle of Council**

For the avoidance of doubt nothing in this determination affects when the Council may issue a bill to a customer for prices or charges under this determination.

## **Wyong Shire Council**

**Draft Determination No. 2, 2009**



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# Preliminary

## 1 Background

- (a) Section 11 of the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW) permits IPART to conduct investigations and make reports to the Minister on the determination of the pricing for a government monopoly service supplied by a government agency specified in Schedule 1 of the IPART Act.
- (b) Water supply authorities constituted under the *Water Management Act 2000* (NSW) are listed as government agencies for the purposes of schedule 1 of the IPART Act. Under the Water Management Act, Wyong Shire Council (the **Council**) is listed as a water supply authority. The services of the Council declared as monopoly services under the *Independent Pricing and Regulatory Tribunal (Water, Sewerage and Drainage Services) Order 1997 (Order)* are:
  - (1) water supply services;
  - (2) sewerage services;
  - (3) stormwater drainage services;
  - (4) trade waste services;
  - (5) services supplied in connection with the provision or upgrading of water supply and sewerage facilities for new developments and, if required, drainage facilities for such developments;
  - (6) ancillary and miscellaneous customer services for which no alternative supply exists and which relate to the supply of services of a kind referred to in paragraphs (1) to (5); and
  - (7) other water supply, sewerage and drainage services for which no alternative supply exists,(together the **Monopoly Services**).

Accordingly, IPART may determine the prices for the Monopoly Services.

- (c) In investigating and reporting on the pricing of the Monopoly Services, IPART has had regard to a broad range of matters, including the criteria set out in section 15(1) of the IPART Act.
- (d) In accordance with section 13A of the IPART Act, IPART has fixed the maximum price for the Monopoly Services or has established a methodology for fixing the maximum price.
- (e) Under section 18(2) of the IPART Act, the Council may not fix a price below that determined by IPART without the approval of the Treasurer.

## **2 Application of this determination**

- (a) This determination fixes the maximum prices (or sets a methodology for fixing the maximum prices) that the Council may charge for the Monopoly Services.
- (b) This determination commences on the later of 1 July 2009 and the date that it is published in the NSW Government Gazette (**Commencement Date**).
- (c) The maximum prices in this determination apply from the Commencement Date to 30 June 2013. The maximum prices in this determination prevailing at 30 June 2013 continue to apply beyond 30 June 2013 until this determination is replaced.

## **3 Replacement of Determination No. 3 of 2006**

Determination No. 3 of 2006 is replaced by this determination from the Commencement Date. The replacement does not affect anything done or omitted to be done, or rights or obligations accrued, under that determination prior to its replacement.

## **4 Monitoring**

IPART may monitor the performance of the Council for the purposes of:

- (a) establishing and reporting on the level of compliance by the Council with this determination; and
- (b) preparing a periodic review of pricing policies in respect of the Monopoly Services supplied by the Council.

## **5 Schedules**

- (a) Schedule 1 and the tables in that schedule set out the maximum prices that Council may charge for water supply services.
- (b) Schedule 2 and the tables in that schedule set out the maximum prices that Council may charge for sewerage services.
- (c) Schedule 3 and the tables in that schedule set out the maximum prices that Council may charge for stormwater drainage services.
- (d) Schedule 4 and the tables in that schedule set out the maximum prices that Council may charge for trade waste services.
- (e) Schedule 5 and the table in that schedule set out the maximum prices that Council may charge for ancillary and miscellaneous customer services.

- (f) Schedule 6 sets out IPART's reasons for choosing to set a methodology when setting a maximum price for water service charges.
- (g) Schedule 7 sets out the definitions and interpretation provisions.

## Schedule 1 — Water supply services

### 1 Application

This schedule sets the maximum prices that the Council may charge for the Monopoly Services under paragraph (a) of the Order (water supply services).

### 2 Categories for pricing purposes

Prices for water supply services have been determined for 3 categories:

- (a) Metered Properties;
- (b) Vacant Land; and
- (c) Multi Premises.

### 3 Charges for water supply services to Metered Properties

The maximum price that may be levied by the Council for the provision of water supply services to a Metered Residential Property or a Metered Non Residential Property (each connected to the Water Supply System) is the sum of the following:

- (a) subject to clause 6 of this schedule, the water service charge in Table 1, corresponding to the Meter size; and
- (b) the water usage charge in Table 2, per kL of water used.

### 4 Charges for water supply services to Vacant Land

The maximum price that may be levied by the Council for the provision of water supply services to Vacant Land which is not connected to the Water Supply System but is reasonably available for connection to the Water Supply System is the water service charge in Table 3 (subject to clause 6 of this schedule).

### 5 Levying water supply charges on Multi Premises

#### 5.1 Water supply charges for Multi Premises

- (a) This clause 5 prescribes how the maximum prices in this schedule are to be levied on Multi Premises, specifically how they are levied on persons who own, control or occupy those Multi Premises.
- (b) Clause 3 of this schedule does not apply to Metered Properties if this clause 5 is capable of applying to those Properties.

## 5.2 Strata Title Lot

For a Strata Title Lot within a Strata Title Building where that Strata Title Building:

- (a) is connected to the Water Supply System; and
- (b) has a Common Water Meter or multiple Common Water Meters,

the maximum price that may be levied by the Council on that Strata Title Lot for the provision of water supply services to that Strata Title Lot is the sum of the following:

- (c) subject to clause 6 of this schedule, the water service charge in Table 1 (with that Strata Title Lot taken to have a Meter size of 20mm); and
- (d) the water usage charge in Table 2, as if the water used by that Strata Title Lot was determined by the following formula:

$$WU = \frac{A}{B} \times C$$

Where:

**WU** - water used by that Strata Title Lot

**A** - total quantity of water used by that Strata Title Building

**B** - total Unit Entitlement of that Strata Title Building

**C** - Unit Entitlement of that Strata Title Lot.

## 5.3 Company Title Dwelling

For a Company Title Building:

- (a) which is connected to the Water Supply System; and
- (b) which has a Common Water Meter or multiple Common Water Meters,

the maximum price that may be levied by the Council for the provision of water supply services to:

- (c) a Company Title Dwelling within that Company Title Building is (subject to clause 6 of this schedule) the water service charge in Table 1 (with that Company Title Dwelling taken to have a Meter size of 20mm); and
- (d) that Company Title Building is the water usage charge in Table 2, per kL of water used.

#### 5.4 Community Development Lot

For a Community Development Lot within a Community Parcel where that Community Parcel:

- (a) is connected to the Water Supply System; and
- (b) has a Common Water Meter or multiple Common Water Meters,

the maximum price that may be levied by the Council on that Community Development Lot for the provision of water supply services to that Community Development Lot is the sum of the following:

- (c) the water service charge determined by the following formula:

$$WSC = \frac{A}{B} \times C$$

Where:

**WSC** - water service charge

**A** - subject to clause 6 of this schedule, water service charge in Table 1, corresponding to the Meter size;

**B** - total Unit Entitlement of that Community Parcel;

**C** - Unit Entitlement of that Community Development Lot;

and

- (d) the water usage charge in Table 2, as if the water used by that Community Development Lot was determined by the following formula:

$$WU = \frac{A}{B} \times C$$

Where:

**WU** - water used by that Community Development Lot;

**A** - total quantity of water used by that Community Parcel;

**B** - total Unit Entitlement of that Community Parcel;

### C - Unit Entitlement of that Community Development Lot.

#### 5.5 Retirement Village which is not on Exempt Land<sup>1</sup>

For a Retirement Village:

- (a) which is not on Exempt Land;
- (b) which is connected to the Water Supply System; and
- (c) which has a Common Water Meter or multiple Common Water Meters,

the maximum price that may be levied by the Council on that Retirement Village for the provision of water supply services to that Retirement Village is, for each Common Water Meter, the sum of the following:

- (d) subject to clause 6 of this schedule, the water service charge in Table 1, corresponding to the Meter size; and
- (e) the water usage charge in Table 2, per kL of water used.

#### 5.6 Multi Premises which is not a Strata Title Building, a Company Title Building, a Community Parcel or a Retirement Village

For a Multi Premises:

- (a) which is not a Strata Title Building, a Company Title Building, a Community Parcel or a Retirement Village;
- (b) which is connected to the Water Supply System; and
- (c) which has a Common Water Meter or multiple Common Water Meters,

the maximum price that may be levied by the Council on that Multi Premises for the provision of water supply services to that Multi Premises is, for each Common Water Meter, the sum of the following:

- (d) subject to clause 6 of this schedule, the water service charge in Table 1, corresponding to the Meter size; and
- (e) the water usage charge in Table 2, per kL of water used.

## 6 Climate Change Fund

6.1 This clause 6 applies if and only if an order is made by the Minister under s34J of the EUA Act requiring the Council to make an annual contribution for a specified financial year to the Climate Change Fund.

6.2 The water service charges in Tables 1 and 3 of this schedule (and only those charges) will be amended by the Council in accordance with clause 6.3 of this

<sup>1</sup> If a Retirement Village is on Exempt Land, this clause will not apply to that Retirement Village and Council will not charge that Retirement Village a water service charge or a water usage charge.

schedule for the financial year corresponding to the financial year specified in the order, so as to enable the Council to recover in that financial year (or in a subsequent financial year if clause 6.4 applies), the annual contribution specified in the order for that financial year.

- 6.3 The water service charges set out in Tables 1 and 3 will be increased for a financial year by an adjusted amount calculated as follows:

$$AA = \frac{CCFC}{NP}$$

Where:

**AA** – adjusted amount

**CCFC** – amount specified in an order made by the Minister under section 34J of the EUA Act requiring the Council to make a contribution to the Climate Change Fund for the financial year specified in the order

**NP** – number of Properties connected to the Water Supply System at the date that the calculation is made.

- 6.4 If an order is made:

- (a) after the Commencement Date, requiring the Council to make a contribution to the Climate Change Fund for the financial year commencing 1 July 2009;
- (b) before the Commencement Date, but at a time that does not enable the Council to apply clause 6.2 of this schedule on 1 July 2009; or
- (c) at any other time during this determination, requiring the Council to make a contribution to the Climate Change Fund for a financial year but the order is made either after the commencement of that financial year or alternatively before that financial year but at a time that does not enable the Council to apply clause 6.2 for that financial year,

then the Council may also recover in a subsequent financial year to the year specified in the order (but not before), the amount it would otherwise have been entitled to recover under clause 6.2 for the financial year specified in the order.

- 6.5 In calculating the adjusted amount in clause 6.3 of this schedule, the Council must, if notified in writing by IPART (but not otherwise), submit to IPART (by a time and in a manner specified by IPART), information to enable IPART to verify that the charges the Council proposes to levy in a financial year comply with clause 6 of this schedule.



- 6.6 If the Council is given a notice under clause 6.5 of this schedule, the Council must not levy any charges in a financial year until it receives written notice from IPART that IPART is satisfied that the charges the Council proposes to levy comply with clause 6 of this schedule.

## Tables 1, 2 and 3

**Table 1 Water service charges for a Metered Residential Property or a Metered Non Residential Property**

Charge	Commencement Date to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
	\$	\$	\$	\$
Water service charge (per year) - Meter size				
20mm	100.94	$124.75 \times (1+\Delta CPI_1)$	$150.54 \times (1+\Delta CPI_2)$	$180.31 \times (1+\Delta CPI_3)$
25mm	157.72	$194.93 \times (1+\Delta CPI_1)$	$235.23 \times (1+\Delta CPI_2)$	$281.74 \times (1+\Delta CPI_3)$
40mm	403.76	$499.01 \times (1+\Delta CPI_1)$	$602.18 \times (1+\Delta CPI_2)$	$721.25 \times (1+\Delta CPI_3)$
50mm	630.88	$779.71 \times (1+\Delta CPI_1)$	$940.91 \times (1+\Delta CPI_1)$	$1,126.95 \times (1+\Delta CPI_3)$
80mm	1,615.04	$1,996.06 \times (1+\Delta CPI_1)$	$2,408.72 \times (1+\Delta CPI_2)$	$2,884.99 \times (1+\Delta CPI_3)$
100mm	2,523.50	$3,118.84 \times (1+\Delta CPI_1)$	$3,763.62 \times (1+\Delta CPI_2)$	$4,507.80 \times (1+\Delta CPI_3)$
150mm	5,677.88	$7,017.39 \times (1+\Delta CPI_1)$	$8,468.15 \times (1+\Delta CPI_2)$	$10,142.54 \times (1+\Delta CPI_3)$
200mm	10,094.00	$12,475.36 \times (1+\Delta CPI_1)$	$15,054.48 \times (1+\Delta CPI_2)$	$18,031.18 \times (1+\Delta CPI_3)$
For Meter sizes not specified above the following formula applies	$(\text{Meter size})^2 \times 20\text{mm charge}/400$	$(\text{Meter size})^2 \times 20\text{mm charge}/400$	$(\text{Meter size})^2 \times 20\text{mm charge}/400$	$(\text{Meter size})^2 \times 20\text{mm charge}/400$

**Table 2 Water usage charges for a Metered Residential Property or a Metered Non Residential Property**

Charge	Commencement Date to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
	\$	\$	\$	\$
Water usage charge, per kilolitre of water used	1.76	$1.81 \times (1+\Delta CPI_1)$	$1.88 \times (1+\Delta CPI_2)$	$1.94 \times (1+\Delta CPI_3)$

**Table 3 Water service charge for Vacant Land**

<b>Charge</b>	<b>Commencement Date to 30 June 2010 \$</b>	<b>1 July 2010 to 30 June 2011 \$</b>	<b>1 July 2011 to 30 June 2012 \$</b>	<b>1 July 2012 to 30 June 2013 \$</b>
Water service charge (per year)	100.94	$124.75 \times (1 + \Delta \text{CPI}_1)$	$150.54 \times (1 + \Delta \text{CPI}_2)$	$180.31 \times (1 + \Delta \text{CPI}_3)$

## Schedule 2 — Sewerage Services

### 1 Application

This schedule sets the maximum prices that the Council may charge for the Monopoly Services under paragraph (b) of the Order (sewerage services).

### 2 Categories for pricing purposes

Prices for sewerage services have been determined for 5 categories:

- (a) Residential Properties (other than Vacant Land or Exempt Land);
- (b) Non Residential Properties (other than Vacant Land or Exempt Land);
- (c) Vacant Land;
- (d) Exempt Land; and
- (e) Multi Premises.

### 3 Charges for sewerage services to Residential Properties

#### 3.1 Charges for sewerage services to a Residential Property connected to the Sewerage System

The maximum price that may be levied by the Council for sewerage services to a Residential Property (other than Vacant Land or Exempt Land) connected to the Sewerage System is the sewerage service charge in Table 4.

#### 3.2 Charges for sewerage services to a Residential Property not connected to the Sewerage System

The maximum price that may be levied by the Council for sewerage services to a Residential Property (other than Vacant Land or Exempt Land) not connected to the Sewerage System is the effluent and sludge removal charge in Table 5.

## **4 Charges for sewerage services to Non Residential Properties**

### **4.1 Charges for sewerage services to a Non Residential Property connected to the Sewerage System**

The maximum price that may be levied by the Council for sewerage services to a Non Residential Property (other than Vacant Land or Exempt Land) connected to the Sewerage System is the greater of:

- (a) the sewerage service charge in Table 6; and
- (b) the sum of:
  - (1) the sewerage service charge in Table 7, corresponding to the Meter size; and
  - (2) the sewerage usage charge in Table 8.

### **4.2 Charges for sewerage services to a Non Residential Property not connected to the Sewerage System**

The maximum price that may be levied by Council for sewerage services to a Non Residential Property (other than Vacant Land or Exempt Land) that is not connected to the Sewerage System is the effluent and sludge removal charge in Table 9.

## **5 Charges for sewerage services to Vacant Land**

The maximum price that may be levied by the Council for sewerage services to Vacant Land which is not connected to the Sewerage System but is reasonably available for connection to the Sewerage System is the sewerage service charge in Table 10.

## **6 Charges for sewerage services to Exempt Land**

The maximum price that may be levied by the Council for sewerage services to Exempt Land is the sewerage service charge in Table 11.

## **7 Levying charges for sewerage services on Multi Premises**

### **7.1 Sewerage service charges for Multi Premises**

- (a) This clause 7 prescribes how the maximum prices in this schedule are to be levied on Multi Premises, specifically how they are levied on persons who own, control or occupy those Multi Premises.
- (b) Clauses 3.1 and 4.1 do not apply to Properties connected to the Sewerage System if this clause 7 is capable of applying to those Properties.

### **7.2 Strata Title Lot which is a Residential Property**

For a Strata Title Lot (which is a Residential Property) within a Strata Title Building where that Strata Title Building:

- (a) is connected to the Sewerage System; and
- (b) has a Common Water Meter or multiple Common Water Meters,

the maximum price that may be levied by the Council on that Strata Title Lot for the provision of sewerage services to that Strata Title Lot is the sewerage service charge in Table 4.

### **7.3 Strata Title Lot which is a Non Residential Property**

For a Strata Title Lot (which is a Non Residential Property) within a Strata Title Building where that Strata Title Building:

- (a) is connected to the Sewerage System; and
- (b) has a Common Water Meter or multiple Common Water Meters,

the maximum price that may be levied by the Council on that Strata Title Lot for the provision of sewerage services to that Strata Title Lot is the greater of:

- (c) the maximum price determined as follows:

$$MP = \frac{A}{B} \times C$$

Where:

**MP** – maximum price;

**A** - sewerage service charge in Table 6;

**B** - total Unit Entitlement of that Strata Title Building; and

**C** - Unit Entitlement of that Strata Title Lot.

and

(d) the maximum price determined as follows:

$$MP = \left( \frac{D + E}{F} \right) \times G$$

Where:

**MP** – maximum price;

**D** - sewerage service charge in Table 7, corresponding to the Meter size;

**E** - sewerage usage charge in Table 8;

**F** - total Unit Entitlement of that Strata Title Building; and

**G** - Unit Entitlement of that Strata Title Lot.

#### 7.4 Company Title Dwelling

For a Company Title Dwelling within a Company Title Building where that Company Title Building:

- (a) is connected to the Sewerage System; and
- (b) has a Common Water Meter or multiple Common Water Meters,

the maximum price that may be levied by the Council on that Company Title Dwelling for the provision of sewerage services to that Company Title Dwelling is the sewerage service charge in Table 4.

#### 7.5 Community Development Lot

For a Community Development Lot within a Community Parcel where that Community Parcel:

- (a) is connected to the Sewerage System; and
- (b) has a Common Water Meter or multiple Common Water Meters,

the maximum price that may be levied by the Council on that Community Development Lot for the provision of sewerage services to that Community Development Lot is:

$$MP = \frac{A}{B} \times C$$

Where:

**MP** – maximum price;

**A** - sewerage service charge in Table 7, corresponding to the Meter size;

**B** - total Unit Entitlement of that Community Parcel; and

**C** - Unit Entitlement of that Community Development Lot.

## **7.6 Retirement Village which is not on Exempt Land<sup>2</sup>**

For a Retirement Village:

- (a) which is not on Exempt Land;
- (b) which is connected to the Sewerage System; and
- (c) which has a Common Water Meter or multiple Common Water Meters,

the maximum price that may be levied by the Council on that Retirement Village for the provision of sewerage services to that Retirement Village is, for each Common Water Meter, the greater of:

- (d) the sewerage service charge in Table 6; and
- (e) the sum of:
  - (1) the sewerage service charge in Table 7, corresponding to the Meter size; and
  - (2) the sewerage usage charge in Table 8.

## **7.7 Multi Premises which is not a Strata Title Building, a Company Title Building, a Community Parcel or a Retirement Village**

For a Multi Premises:

- (a) which is not a Strata Title Building, a Company Title Building, a Community Parcel or a Retirement Village;
- (b) which is connected to the Sewerage System; and
- (c) which has a Common Water Meter or multiple Common Water Meters,

the maximum price that may be levied by the Council on that Multi Premises for the provision of sewerage services to that Multi Premises is, for each Common Water Meter, the greater of:

- (d) the sewerage service charge in Table 6; and
- (e) the sum of:

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<sup>2</sup> If a Retirement Village is on Exempt Land, clause 6 of this schedule (and not this clause) will apply to that Retirement Village.



- (1) the sewerage service charge in Table 7, corresponding to the Meter size; and
- (2) the sewerage usage charge in Table 8.

## Tables 4, 5, 6, 7, 8, 9, 10 and 11

**Table 4 Sewerage service charge for a Residential Property**

Charge	Commencement Date to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
	\$	\$	\$	\$
Sewerage service charge (per year)	425.19	$429.44 \times (1+\Delta\text{CPI}_1)$	$433.71 \times (1+\Delta\text{CPI}_2)$	$438.05 \times (1+\Delta\text{CPI}_3)$

**Table 5 Effluent and sludge removal charges for a Residential Property**

Charge	Commencement Date to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
	\$	\$	\$	\$
Fortnightly effluent removal and disposal service (per year)	979.51	$989.29 \times (1+\Delta\text{CPI}_1)$	$999.13 \times (1+\Delta\text{CPI}_2)$	$1009.12 \times (1+\Delta\text{CPI}_3)$
Additional requested effluent removal and disposal service (per visit)	37.91	$38.28 \times (1+\Delta\text{CPI}_1)$	$38.67 \times (1+\Delta\text{CPI}_2)$	$39.05 \times (1+\Delta\text{CPI}_3)$
Sludge removal and disposal services: Septic tanks with a capacity up to 2750 litres (per service)	274.78	$277.53 \times (1+\Delta\text{CPI}_1)$	$280.29 \times (1+\Delta\text{CPI}_2)$	$283.09 \times (1+\Delta\text{CPI}_3)$
Septic tanks exceeding 2750 litres or AWTs with one tank (per service)	356.50	$360.06 \times (1+\Delta\text{CPI}_1)$	$363.64 \times (1+\Delta\text{CPI}_2)$	$367.28 \times (1+\Delta\text{CPI}_3)$
AWTs with more than one tank (\$ per service)	531.79	$537.10 \times (1+\Delta\text{CPI}_1)$	$542.48 \times (1+\Delta\text{CPI}_2)$	$547.87 \times (1+\Delta\text{CPI}_3)$
Chemical Closet Fortnightly service (per year)	1411.75	$1425.84 \times (1+\Delta\text{CPI}_1)$	$1440.04 \times (1+\Delta\text{CPI}_2)$	$1454.43 \times (1+\Delta\text{CPI}_3)$
Each requested weekly special service (per year)	27.50	$27.77 \times (1+\Delta\text{CPI}_1)$	$28.05 \times (1+\Delta\text{CPI}_2)$	$28.33 \times (1+\Delta\text{CPI}_3)$

**Table 6 Sewerage service charge for a Non Residential Property**

Charge	Commencement Date to	1 July 2010 to	1 July 2011 to	1 July 2012 to
	30 June 2010	30 June 2011	30 June 2012	30 June 2013
	\$	\$	\$	\$
Sewerage service charge (per year)	425.19	$429.44 \times (1 + \Delta CPI_1)$	$433.71 \times (1 + \Delta CPI_2)$	$438.05 \times (1 + \Delta CPI_3)$

**Table 7 Sewerage service charges for a Non Residential Property**

Charge	Commence ment Date to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
	\$	\$	\$	\$
Sewerage service charge (per year) – Meter size				
20mm	153.18	$154.71 \times (1 + \Delta CPI_1)$	$156.25 \times (1 + \Delta CPI_2)$	$157.81 \times (1 + \Delta CPI_3)$
25mm	239.35	$241.74 \times (1 + \Delta CPI_1)$	$244.14 \times (1 + \Delta CPI_2)$	$246.58 \times (1 + \Delta CPI_3)$
40mm	612.73	$618.84 \times (1 + \Delta CPI_1)$	$625.00 \times (1 + \Delta CPI_2)$	$631.25 \times (1 + \Delta CPI_3)$
50mm	957.39	$966.94 \times (1 + \Delta CPI_1)$	$976.57 \times (1 + \Delta CPI_2)$	$986.33 \times (1 + \Delta CPI_3)$
80mm	2,450.91	$2,475.37 \times (1 + \Delta CPI_1)$	$2,500.01 \times (1 + \Delta CPI_2)$	$2,525.01 \times (1 + \Delta CPI_3)$
100mm	3,829.55	$3,867.77 \times (1 + \Delta CPI_1)$	$3,906.27 \times (1 + \Delta CPI_2)$	$3,945.33 \times (1 + \Delta CPI_3)$
150mm	8,616.49	$8,702.49 \times (1 + \Delta CPI_1)$	$8,789.11 \times (1 + \Delta CPI_2)$	$8,876.98 \times (1 + \Delta CPI_3)$
200mm	15,318.21	$15,471.09 \times (1 + \Delta CPI_1)$	$15,625.08 \times (1 + \Delta CPI_2)$	$15,781.30 \times (1 + \Delta CPI_3)$
For Meter sizes not specified above the following formula applies	$[(\text{Meter size})^2 \times 20\text{mm charge}/400] \times \text{df}\%$	$[(\text{Meter size})^2 \times 20\text{mm charge}/400] \times \text{df}\%$	$[(\text{Meter size})^2 \times 20\text{mm charge}/400] \times \text{df}\%$	$[(\text{Meter size})^2 \times 20\text{mm charge}/400] \times \text{df}\%$

**Note:** A Discharge Factor is applied to the charge based on the volume of water discharged into the Sewerage System.

**Table 8 Sewerage usage charge for a Non Residential Property**

Charge	Commencement Date to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
	\$	\$	\$	\$
Sewerage usage charge, per kL of water used	$0.77 \times \text{df}\%$	$0.77 \times (1 + \Delta CPI_1) \times \text{df}\%$	$0.78 \times (1 + \Delta CPI_2) \times \text{df}\%$	$0.79 \times (1 + \Delta CPI_3) \times \text{df}\%$

**Note:** A Discharge Factor is applied to the charge based on the volume of water discharged into the Sewerage System.

**Table 9 Effluent and sludge removal charges for a Non Residential Property**

Charge	Commencement Date to 30 June 2010 \$	1 July 2010 to 30 June 2011 \$	1 July 2011 to 30 June 2012 \$	1 July 2012 to 30 June 2013 \$
Type of service				
Commercial effluent removal and disposal service (\$/ kL)	12.56	$12.69 \times (1+\Delta\text{CPI}_1)$	$12.81 \times (1+\Delta\text{CPI}_2)$	$12.94 \times (1+\Delta\text{CPI}_3)$
Sludge removal and disposal services:	274.78	$277.53 \times (1+\Delta\text{CPI}_1)$	$280.29 \times (1+\Delta\text{CPI}_2)$	$283.09 \times (1+\Delta\text{CPI}_3)$
Septic tanks with a capacity up to 2750 litres (\$ per service)				
Septic tanks exceeding 2750 litres or AWTs with one tank (\$ per service)	356.50	$360.06 \times (1+\Delta\text{CPI}_1)$	$363.65 \times (1+\Delta\text{CPI}_2)$	$367.28 \times (1+\Delta\text{CPI}_3)$
AWTs with more than one tank (\$ per service)	531.79	$537.10 \times (1+\Delta\text{CPI}_1)$	$542.45 \times (1+\Delta\text{CPI}_2)$	$547.87 \times (1+\Delta\text{CPI}_3)$
Sludge disposal only (collection organised by customer) (\$/kL)	29.61	$29.91 \times (1+\Delta\text{CPI}_1)$	$30.21 \times (1+\Delta\text{CPI}_2)$	$30.51 \times (1+\Delta\text{CPI}_3)$
Chemical Closet Fortnightly service (\$ per year)	1411.75	$1425.84 \times (1+\Delta\text{CPI}_1)$	$1440.04 \times (1+\Delta\text{CPI}_2)$	$1454.43 \times (1+\Delta\text{CPI}_3)$
Each requested weekly special service (\$ per service)	27.50	$27.77 \times (1+\Delta\text{CPI}_1)$	$28.05 \times (1+\Delta\text{CPI}_2)$	$28.33 \times (1+\Delta\text{CPI}_3)$

**Table 10 Sewerage service charge for Vacant Land**

Charge	Commencement Date to 30 June 2010 \$	1 July 2010 to 30 June 2011 \$	1 July 2011 to 30 June 2012 \$	1 July 2012 to 30 June 2013 \$
Sewerage service charge (per year)	318.90	$322.09 \times (1+\Delta\text{CPI}_1)$	$325.29 \times (1+\Delta\text{CPI}_2)$	$328.54 \times (1+\Delta\text{CPI}_3)$

**Table 11 Sewerage service charge for Exempt Land**

<b>Charge</b>	<b>Commencement Date to 30 June 2010 \$</b>	<b>1 July 2010 to 30 June 2011 \$</b>	<b>1 July 2011 to 30 June 2012 \$</b>	<b>1 July 2012 to 30 June 2013 \$</b>
Per water closet	60.03	$60.63 \times (1 + \Delta CPI_1)$	$61.23 \times (1 + \Delta CPI_2)$	$61.84 \times (1 + \Delta CPI_3)$
Per cistern servicing a urinal	21.26	$21.47 \times (1 + \Delta CPI_1)$	$21.68 \times (1 + \Delta CPI_2)$	$21.90 \times (1 + \Delta CPI_3)$

## Schedule 3 Stormwater drainage services

### 1 Application

This Schedule sets the maximum prices that the Council may charge for services under paragraph (c) of the Order (stormwater drainage services).

### 2 Categories for pricing purposes

Prices for stormwater drainage services have been determined for 3 categories:

- (a) Metered Residential Properties;
- (b) Metered Non Residential Properties; and
- (c) Multi Premises.

### 3 Charges for stormwater drainage services to Metered Residential Properties

The maximum price that may be levied by the Council for the provision of stormwater drainage services to a Metered Residential Property is the stormwater drainage charge in Table 12.

### 4 Charges for stormwater drainage services to Metered Non Residential Properties

The maximum price that may be levied by the Council for the provision of stormwater drainage services to a Metered Non Residential Property is the stormwater drainage charge in Table 13, corresponding to the Meter size.

## **5 Charges for stormwater drainage services to Multi Premises**

### **5.1 Stormwater drainage charges for Multi Premises**

- (a) This clause 5 prescribes how the maximum prices in this schedule are to be levied on Multi Premises, specifically how they are levied on persons who own, control or occupy those Multi Premises.
- (b) Clauses 3 and 4 of this schedule do not apply to Metered Properties if this clause 5 is capable of applying to those Properties.

### **5.2 Strata Title Lot**

For a Strata Title Lot within a Strata Title Building where that Strata Title Building:

- (a) is connected to the Water Supply System; and
- (b) has a Common Water Meter or multiple Common Water Meters,

the maximum price that may be levied by the Council on that Strata Title Lot for the provision of stormwater drainage services to that Strata Title Lot is the stormwater drainage charge in Table 14.

### **5.3 Company Title Dwelling**

For a Company Title Building:

- (a) which is connected to the Water Supply System; and
- (b) which has a Common Water Meter or multiple Common Water Meters,

the maximum price that may be levied by the Council for the provision of stormwater drainage services to a Company Title Dwelling within that Company Title Building is the stormwater drainage charge in Table 14.

### **5.4 Community Development Lot**

For a Community Development Lot within a Community Parcel where that Community Parcel:

- (a) is connected to the Water Supply System; and
- (b) has a Common Water Meter or multiple Common Water Meters,

the maximum price that may be levied by the Council on that Community Development Lot for the provision of stormwater drainage services to that Community Development Lot is the stormwater drainage charge in Table 14.

## **5.5 Retirement Village which is not on Exempt Land<sup>3</sup>**

For a Retirement Village:

- (a) which is not on Exempt Land;
- (b) which is connected to the Water Supply System; and
- (c) which has a Common Water Meter or multiple Common Water Meters,

the maximum price that may be levied by the Council on that Retirement Village for the provision of stormwater drainage services to that Retirement Village is, for each Common Water Meter, the stormwater drainage charge in Table 14.

## **5.6 Multi Premises which is not a Strata Title Building, a Company Title Building, a Community Parcel or a Retirement Village**

For a Multi Premises:

- (a) which is not a Strata Title Building, a Company Title Building, a Community Parcel or a Retirement Village;
- (b) which is connected to the Water Supply System; and
- (c) which has a Common Water Meter or multiple Common Water Meters,

the maximum price that may be levied by the Council on that Multi Premises for the provision of stormwater drainage services to that Multi Premises is, for each Common Water Meter, the stormwater drainage charge in Table 14.

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<sup>3</sup> If a Retirement Village is on Exempt Land, this clause will not apply to that Retirement Village and Council will not charge that Retirement Village a water service charge or a water usage charge.



## Tables 12, 13 and 14

**Table 12 Stormwater drainage charge for Metered Residential Properties**

Charge	Commencement Date to 30 June 2010 \$	1 July 2010 to 30 June 2011 \$	1 July 2011 to 30 June 2012 \$	1 July 2012 to 30 June 2013 \$
Stormwater drainage charge (per year)	82.40	$82.40 \times (1 + \Delta CPI_1)$	$82.40 \times (1 + \Delta CPI_2)$	$82.40 \times (1 + \Delta CPI_3)$

**Table 13 Stormwater drainage charge for Metered Non Residential Properties**

Charge	Commencement Date to 30 June 2010 \$	1 July 2010 to 30 June 2011 \$	1 July 2011 to 30 June 2012 \$	1 July 2012 to 30 June 2013 \$
Stormwater drainage charge (per year) – Meter size				
20mm	82.40	$82.40 \times (1 + \Delta CPI_1)$	$82.40 \times (1 + \Delta CPI_2)$	$82.40 \times (1 + \Delta CPI_3)$
25mm	128.75	$128.75 \times (1 + \Delta CPI_1)$	$128.75 \times (1 + \Delta CPI_2)$	$128.75 \times (1 + \Delta CPI_3)$
40mm	329.60	$329.60 \times (1 + \Delta CPI_1)$	$329.60 \times (1 + \Delta CPI_2)$	$329.60 \times (1 + \Delta CPI_3)$
50mm	515.00	$515.00 \times (1 + \Delta CPI_1)$	$515.00 \times (1 + \Delta CPI_2)$	$515.00 \times (1 + \Delta CPI_3)$
80mm	1,318.40	$1,318.40 \times (1 + \Delta CPI_1)$	$1,318.40 \times (1 + \Delta CPI_2)$	$1,318.40 \times (1 + \Delta CPI_3)$
100mm	2,060.00	$2,060.00 \times (1 + \Delta CPI_1)$	$2,060.00 \times (1 + \Delta CPI_2)$	$2,060.00 \times (1 + \Delta CPI_3)$
150mm	4,635.00	$4,635.00 \times (1 + \Delta CPI_1)$	$4,635.00 \times (1 + \Delta CPI_2)$	$4,635.00 \times (1 + \Delta CPI_3)$
200mm	8,240.00	$8,240.00 \times (1 + \Delta CPI_1)$	$8,240.00 \times (1 + \Delta CPI_2)$	$8,240.00 \times (1 + \Delta CPI_3)$
For Meter sizes not specified above the following formula applies	$[(\text{Meter size})^2 \times 20\text{mm charge}/400]$	$[(\text{Meter size})^2 \times 20\text{mm charge}/400]$	$[(\text{Meter size})^2 \times 20\text{mm charge}/400]$	$[(\text{Meter size})^2 \times 20\text{mm charge}/400]$

**Table 14 Stormwater drainage charge for Multi Premises**

<b>Charge</b>	<b>Commencement Date to 30 June 2010 \$</b>	<b>1 July 2010 to 30 June 2011 \$</b>	<b>1 July 2011 to 30 June 2012 \$</b>	<b>1 July 2012 to 30 June 2013 \$</b>
Stormwater drainage charge (per year)	61.80	$61.80 \times (1 + \Delta CPI_1)$	$61.80 \times (1 + \Delta CPI_2)$	$61.80 \times (1 + \Delta CPI_3)$

## Schedule 4 — Trade waste services

### 1 Application

This Schedule sets the maximum prices that the Council may charge for the Monopoly Services under paragraph (d) of the Order (trade waste services).

### 2 Categories for pricing purposes

Prices for trade waste services have been determined for 3 categories:

- (a) Category 1 Trade Waste Discharge;
- (b) Category 2 Trade Waste Discharge; and
- (c) Category 3 Trade Waste Discharge.

### 3 Category 1 Trade Waste Discharge

The maximum price that may be levied by the Council for a Category 1 Trade Waste Discharge is calculated as follows:

$$TW1 = A1 + C1 + T$$

Where:

**TW1** - maximum price for Category 1 Trade Waste Discharge

**A1** - Category 1 trade waste discharge application fee (if applicable)

**C1** - Category 1 annual trade waste fee (\$)

**T** - Trade waste re-inspection fee (\$) (if applicable),

each as set out in Table 15.

## 4 Category 2 Trade Waste Discharge

The maximum price that may be levied by the Council for a Category 2 Trade Waste Discharge is calculated as follows:

(a) With pre-treatment

$$TW2 = A2 + C2 + T + UFW$$

Where:

**TW2** - maximum price for Category 2 Trade Waste Discharge (with pre-treatment)

**A2** - Category 2 trade waste discharge application fee (if applicable)

**C2** - Category 2 annual trade waste fee (\$)

**T** - Trade waste re-inspection fee (\$) (if applicable)

**UFW** - Trade waste usage fee (with pre-treatment) (\$/kL),

each as set out in Table 15.

(b) Without pre-treatment

$$TW2 = A2 + C2 + T + UFO$$

Where:

**TW2** - maximum price for Category 2 Trade Waste Discharge (without pre-treatment)

**A2** - Category 2 trade waste discharge application fee (if applicable)

**C2** - Category 2 annual trade waste fee (\$)

**T** - Trade waste re-inspection fee (\$) (if applicable)

**UFO** - Trade waste usage fee (without pre-treatment) (\$/kL),

each as set out in Table 15.

## 5 Category 3 Trade Waste Discharge

The maximum price that may be levied by the Council for a Category 3 Trade Waste Discharge is calculated as follows:

$$TW3 = A3 + C3 + T + EMC$$

Where:

**TW3** - maximum price for Category 3 Trade Waste Discharge

**A3** - Category 3 trade waste discharge application fee (if applicable)

**C3** - Category 3 annual trade waste fee (\$)

**T** - Trade waste re-inspection fee (\$) (if applicable),

each as set out in Table 15.

**EMC** - Total excess mass charge (\$/kg) as set out in Table 16.

## Tables 15 and 16

**Table 15 Trade waste application/ annual licence/ re-inspection fees**

Charge	Commencement Date to 30 June 2010 \$	1 July 2010 to 30 June 2011 \$	1 July 2011 to 30 June 2012 \$	1 July 2012 to 30 June 2013 \$
Category 1 trade waste discharge application fee (\$ per application)	44.23	$44.23 \times (1 + \Delta CPI_1)$	$44.23 \times (1 + \Delta CPI_2)$	$44.23 \times (1 + \Delta CPI_3)$
Category 2 trade waste discharge application fee (\$ per application)	56.29	$56.29 \times (1 + \Delta CPI_1)$	$56.29 \times (1 + \Delta CPI_2)$	$56.29 \times (1 + \Delta CPI_3)$
Category 3 trade waste discharge application fee (\$ per application)	863.23	$63.23 \times (1 + \Delta CPI_1)$	$863.23 \times (1 + \Delta CPI_2)$	$863.23 \times (1 + \Delta CPI_3)$
Category 1 annual trade waste fee (\$ per year)	77.34	$77.34 \times (1 + \Delta CPI_1)$	$77.34 \times (1 + \Delta CPI_2)$	$77.34 \times (1 + \Delta CPI_3)$
Category 2 annual trade waste fee (\$ per year)	309.37	$309.37 \times (1 + \Delta CPI_1)$	$309.37 \times (1 + \Delta CPI_2)$	$309.37 \times (1 + \Delta CPI_3)$
Category 3 annual trade waste fee (\$ per year)	519.68	$519.68 \times (1 + \Delta CPI_1)$	$519.68 \times (1 + \Delta CPI_2)$	$519.68 \times (1 + \Delta CPI_3)$
Trade waste re-inspection fee (\$ per inspection)	72.51	$72.51 \times (1 + \Delta CPI_1)$	$72.51 \times (1 + \Delta CPI_2)$	$72.51 \times (1 + \Delta CPI_3)$
Trade waste usage fee (\$/kL)				
With pre-treatment	0.42	$0.53 \times (1 + \Delta CPI_1)$	$0.63 \times (1 + \Delta CPI_2)$	$0.73 \times (1 + \Delta CPI_3)$
Without pre-treatment	13.29	$13.29 \times (1 + \Delta CPI_1)$	$13.29 \times (1 + \Delta CPI_2)$	$13.29 \times (1 + \Delta CPI_3)$

**Table 16 Excess mass charge**

<b>Charge</b>	<b>Commencement Date to 30 June 2010 \$</b>	<b>1 July 2010 to 30 June 2011 \$</b>	<b>1 July 2011 to 30 June 2012 \$</b>	<b>1 July 2012 to 30 June 2013 \$</b>
Biochemical Oxygen Demand	0.65	$0.65 \times (1+\Delta CPI_1)$	$0.65 \times (1+\Delta CPI_2)$	$0.65 \times (1+\Delta CPI_3)$
Suspended Solids	0.82	$0.82 \times (1+\Delta CPI_1)$	$0.82 \times (1+\Delta CPI_2)$	$0.82 \times (1+\Delta CPI_3)$
Total Oil and Grease	1.16	$1.16 \times (1+\Delta CPI_1)$	$1.16 \times (1+\Delta CPI_2)$	$1.16 \times (1+\Delta CPI_3)$
Ammonia (as Nitrogen)	0.65	$0.65 \times (1+\Delta CPI_1)$	$0.65 \times (1+\Delta CPI_2)$	$0.65 \times (1+\Delta CPI_3)$
Total Kheldhal Nitrogen	0.15	$0.15 \times (1+\Delta CPI_1)$	$0.15 \times (1+\Delta CPI_2)$	$0.15 \times (1+\Delta CPI_3)$
Total Phosphorus	1.32	$1.32 \times (1+\Delta CPI_1)$	$1.32 \times (1+\Delta CPI_2)$	$1.32 \times (1+\Delta CPI_3)$
Total Dissolved Solids	0.04	$0.04 \times (1+\Delta CPI_1)$	$0.04 \times (1+\Delta CPI_2)$	$0.04 \times (1+\Delta CPI_3)$
Aluminium	0.65	$0.65 \times (1+\Delta CPI_1)$	$0.65 \times (1+\Delta CPI_2)$	$0.65 \times (1+\Delta CPI_3)$
Arsenic	0.65	$0.65 \times (1+\Delta CPI_1)$	$0.65 \times (1+\Delta CPI_2)$	$0.65 \times (1+\Delta CPI_3)$
Barium	32.62	$32.62 \times (1+\Delta CPI_1)$	$32.62 \times (1+\Delta CPI_2)$	$32.62 \times (1+\Delta CPI_3)$
Boron	0.65	$0.65 \times (1+\Delta CPI_1)$	$0.65 \times (1+\Delta CPI_2)$	$0.65 \times (1+\Delta CPI_3)$
Bromine	13.05	$13.05 \times (1+\Delta CPI_1)$	$13.05 \times (1+\Delta CPI_2)$	$13.05 \times (1+\Delta CPI_3)$
Cadmium	302.13	$302.13 \times (1+\Delta CPI_1)$	$302.13 \times (1+\Delta CPI_2)$	$302.13 \times (1+\Delta CPI_3)$
Chloride	No charge	No charge	No charge	No charge
Chlorinated Hydrocarbons	32.62	$32.62 \times (1+\Delta CPI_1)$	$32.62 \times (1+\Delta CPI_2)$	$32.62 \times (1+\Delta CPI_3)$
Chlorinated Phenolics	1305.24	$1,305.24 \times (1+\Delta CPI_1)$	$1,305.24 \times (1+\Delta CPI_2)$	$1,305.24 \times (1+\Delta CPI_3)$
Chlorine	1.32	$1.32 \times (1+\Delta CPI_1)$	$1.32 \times (1+\Delta CPI_2)$	$1.32 \times (1+\Delta CPI_3)$
Chromium	21.75	$21.75 \times (1+\Delta CPI_1)$	$21.75 \times (1+\Delta CPI_2)$	$21.75 \times (1+\Delta CPI_3)$
Cobalt	13.29	$13.29 \times (1+\Delta CPI_1)$	$13.29 \times (1+\Delta CPI_2)$	$13.29 \times (1+\Delta CPI_3)$
Copper	13.29	$13.29 \times (1+\Delta CPI_1)$	$13.29 \times (1+\Delta CPI_2)$	$13.29 \times (1+\Delta CPI_3)$
Cyanide	65.26	$65.26 \times (1+\Delta CPI_1)$	$65.26 \times (1+\Delta CPI_2)$	$65.26 \times (1+\Delta CPI_3)$
Fluoride	3.25	$3.25 \times (1+\Delta CPI_1)$	$3.25 \times (1+\Delta CPI_2)$	$3.25 \times (1+\Delta CPI_3)$
Formaldehyde	1.32	$1.32 \times (1+\Delta CPI_1)$	$1.32 \times (1+\Delta CPI_2)$	$1.32 \times (1+\Delta CPI_3)$
Herbicides/defolia nts	652.62	$652.62 \times (1+\Delta CPI_1)$	$652.62 \times (1+\Delta CPI_2)$	$652.62 \times (1+\Delta CPI_3)$
Iron	1.32	$1.32 \times (1+\Delta CPI_1)$	$1.32 \times (1+\Delta CPI_2)$	$1.32 \times (1+\Delta CPI_3)$
Lead	32.62	$32.62 \times (1+\Delta CPI_1)$	$32.62 \times (1+\Delta CPI_2)$	$32.62 \times (1+\Delta CPI_3)$
Lithium	6.52	$6.52 \times (1+\Delta CPI_1)$	$6.52 \times (1+\Delta CPI_2)$	$6.52 \times (1+\Delta CPI_3)$
Manganese	6.52	$6.52 \times (1+\Delta CPI_1)$	$6.52 \times (1+\Delta CPI_2)$	$6.52 \times (1+\Delta CPI_3)$
Mercaptans	65.26	$65.26 \times (1+\Delta CPI_1)$	$65.26 \times (1+\Delta CPI_2)$	$65.26 \times (1+\Delta CPI_3)$
Mercury	2175.39	$2,175.39 \times (1+\Delta CPI_1)$	$2,175.39 \times (1+\Delta CPI_2)$	$2,175.39 \times (1+\Delta CPI_3)$

<b>Charge</b>	<b>Commencement Date to 30 June 2010 \$</b>	<b>1 July 2010 to 30 June 2011 \$</b>	<b>1 July 2011 to 30 June 2012 \$</b>	<b>1 July 2012 to 30 June 2013 \$</b>
Methylene Blue	0.65	$0.65 \times (1+\Delta CPI_1)$	$0.65 \times (1+\Delta CPI_2)$	$0.65 \times (1+\Delta CPI_3)$
Active Substances (MBAS)	0.65	$0.65 \times (1+\Delta CPI_1)$	$0.65 \times (1+\Delta CPI_2)$	$0.65 \times (1+\Delta CPI_3)$
Molybdenum	0.65	$0.65 \times (1+\Delta CPI_1)$	$0.65 \times (1+\Delta CPI_2)$	$0.65 \times (1+\Delta CPI_3)$
Nickel	21.75	$21.75 \times (1+\Delta CPI_1)$	$21.75 \times (1+\Delta CPI_2)$	$21.75 \times (1+\Delta CPI_3)$
Organoarsenic compounds	652.62	$652.62 \times (1+\Delta CPI_1)$	$652.62 \times (1+\Delta CPI_2)$	$652.62 \times (1+\Delta CPI_3)$
Pesticides general (excludes organochlorines and organophosphate s)	652.62	$652.62 \times (1+\Delta CPI_1)$	$652.62 \times (1+\Delta CPI_2)$	$652.62 \times (1+\Delta CPI_3)$
Petroleum Hydrocarbons (non-flammable)	2.17	$2.17 \times (1+\Delta CPI_1)$	$2.17 \times (1+\Delta CPI_2)$	$2.17 \times (1+\Delta CPI_3)$
Phenolic compounds (non- chlorinated)	6.52	$6.52 \times (1+\Delta CPI_1)$	$6.52 \times (1+\Delta CPI_2)$	$6.52 \times (1+\Delta CPI_3)$
pH	0.36	$0.36 \times (1+\Delta CPI_1)$	$0.36 \times (1+\Delta CPI_2)$	$0.36 \times (1+\Delta CPI_3)$
Polynuclear aromatic hydrocarbons (PAH's)	13.29	$13.29 \times (1+\Delta CPI_1)$	$13.29 \times (1+\Delta CPI_2)$	$13.29 \times (1+\Delta CPI_3)$
Selenium	45.92	$45.92 \times (1+\Delta CPI_1)$	$45.92 \times (1+\Delta CPI_2)$	$45.92 \times (1+\Delta CPI_3)$
Silver	1.19	$1.19 \times (1+\Delta CPI_1)$	$1.19 \times (1+\Delta CPI_2)$	$1.19 \times (1+\Delta CPI_3)$
Sulphate (as SO <sub>4</sub> )	0.12	$0.12 \times (1+\Delta CPI_1)$	$0.12 \times (1+\Delta CPI_2)$	$0.12 \times (1+\Delta CPI_3)$
Sulphide	1.32	$1.32 \times (1+\Delta CPI_1)$	$1.32 \times (1+\Delta CPI_2)$	$1.32 \times (1+\Delta CPI_3)$
Sulphite	1.44	$1.44 \times (1+\Delta CPI_1)$	$1.44 \times (1+\Delta CPI_2)$	$1.44 \times (1+\Delta CPI_3)$
Thiosulphate	0.23	$0.23 \times (1+\Delta CPI_1)$	$0.23 \times (1+\Delta CPI_2)$	$0.23 \times (1+\Delta CPI_3)$
Tin	6.52	$6.52 \times (1+\Delta CPI_1)$	$6.52 \times (1+\Delta CPI_2)$	$6.52 \times (1+\Delta CPI_3)$
Uranium	6.52	$6.52 \times (1+\Delta CPI_1)$	$6.52 \times (1+\Delta CPI_2)$	$6.52 \times (1+\Delta CPI_3)$
Zinc	13.29	$13.29 \times (1+\Delta CPI_1)$	$13.29 \times (1+\Delta CPI_2)$	$13.29 \times (1+\Delta CPI_3)$



## Schedule 5 — Ancillary and miscellaneous customer services

### 1 Application

This Schedule sets the maximum prices that the Council may charge for Monopoly Services under paragraph (f) of the Order (ancillary and miscellaneous customer services for which no alternative supply exists).

### 2 Ancillary and miscellaneous charges

- 2.1 The maximum charge that may be levied by the Council for an ancillary and miscellaneous service in column 2 of Table 17 is:
- (a) **from the Commencement Date to 30 June 2010** - the corresponding charge in column 3 of Table 17;
  - (b) **from 1 July 2010 to 30 June 2011** - the corresponding charge in column 3 of Table 17 multiplied by  $(1 + \Delta CPI_1)$ ;
  - (c) **from 1 July 2011 to 30 June 2012** - the corresponding charge in column 3 of Table 17 multiplied by  $(1 + \Delta CPI_2)$ ; and
  - (d) **from 1 July 2012 to 30 June 2013** - the corresponding charge in column 3 of Table 17 multiplied by  $(1 + \Delta CPI_3)$ .
- 2.2 A reference in Table 17 to "NA" means that the Council does not provide the relevant service.

## Table 17

**Table 17 Charges for ancillary and miscellaneous services**

Column 1 No	Column 2 Ancillary and miscellaneous services	Column 3 Charge
<b>1</b>	<b>Conveyancing Certificate</b> Statement of outstanding Charges	
	a) Over the Counter	\$16.83
	b) Electronic	NA
<b>2</b>	<b>Property Sewerage Diagram-up to and including A4 size- (where available)</b> (Diagram showing the location of the house-service line, building and sewer for a property)	
	a) Certified	\$16.83
	b) Uncertified	
	i. Over the Counter	\$16.83
	ii. Electronic	NA
<b>3</b>	<b>Service Location Diagram</b> (Location of sewer and/or Water Mains in relation to a property's boundaries)	
	a) Over the Counter	\$16.83
	b) Electronic	NA
<b>4</b>	<b>Special Meter Reading Statement</b>	\$51.62
<b>5</b>	<b>Billing Record Search Statement – up to and including 5 years.</b>	\$16.83
<b>6</b>	<b>Building over or Adjacent to Sewer Advice</b>	NA
<b>7</b>	<b>Water Reconnection</b>	
	a) During business hours	\$34.79
	b) Outside business hours	\$143.64
<b>8</b>	<b>Workshop Test of Water Meter</b> (Removal and full mechanical test of the meter by an accredited organisation at the customer's request to determine the accuracy of the water meter. This involves dismantling and inspection of meter components)	
	20mm	\$172.82
	25mm	\$172.82
	32mm	\$172.82

<b>Column 1</b>	<b>Column 2</b>	<b>Column 3</b>
<b>No</b>	<b>Ancillary and miscellaneous services</b>	<b>Charge</b>
	40mm	\$172.82
	50mm	\$172.82
	60mm	\$172.82
	80mm	\$172.82
	100mm	NA
	150mm	NA
<b>9</b>	<b>Application for disconnection – all sizes</b>	\$29.17
<b>10</b>	<b>Application for Water Service Connection-(up to and including 25mm)</b> (This covers the administration fee only. There will be a separate charge payable to the utility if they also perform the physical connection)	\$29.17
<b>11</b>	<b>Application for Water Service Connection-(32-65mm)</b> (This covers administration and system capacity analysis as required. There will be a separate charge payable to the utility if they also perform the physical connection)	\$29.17
<b>12</b>	<b>Application for Water Service Connection-(80mm or greater)</b> (This covers administration and system capacity analysis as required. There will be a separate charge payable to the utility if they also perform the physical connection)	\$29.17
<b>13</b>	<b>Application to assess a Water main Adjustment</b> (Moving a fitting and/or adjusting a section of water main up to and including 25 metres in length) This covers preliminary advice as to the feasibility of the project and will result in either: 1. A rejection of the project in which cases the fee covers the associated investigation costs Or 2. Conditional approval in which case the fee covers the administrative costs associated with the investigation and record amendment.	NA
<b>14</b>	<b>Standpipe Hire</b> Security Bond (25mm) Security Bond (63mm)	\$355.76 \$684.58
<b>15</b>	<b>Standpipe Hire</b> Annual Fee	As per water service charge based on meter

Table 17

Column 1 No	Column 2 Ancillary and miscellaneous services	Column 3 Charge
	Quarterly Fee	size in Table 1 (pro rata on a monthly basis) As above
	Monthly Fee (or part thereof)	As above
<b>16</b>	<b>Standpipe Water Usage Fee</b>	For all usage, as per water usage charge, per kilolitre of water used in Table 2
<b>17</b>	<b>Backflow Prevention Device Application and Registration Fee</b> (This fee is for initial registration of the backflow device)	\$59.48
<b>18</b>	<b>Backflow Prevention Application Device Annual Administration Fee</b> (This fee is for the maintenance of records including logging of inspection reports)	Nil
<b>19</b>	<b>Major Works Inspections Fee</b> (This fee is for the inspection, for the purposes of approval of water and sewer mains, constructed by others, that are longer than 25 metres and/or greater than 2 metres in depth)	
	Water Mains (\$ per metre)	\$5.16
	Gravity Sewer Mains (\$ per metre)	\$6.89
	Rising Sewer Mains (\$ per metre)	\$5.16
<b>20</b>	<b>Statement of Available Pressure and Flow (inclusive of GST)</b> (This fee covers all levels whether modelling is required or not)	\$125.69
<b>21</b>	<b>Underground Services Locations (inclusive of GST)</b> Provision of uncertified plan showing location of underground mains:	NA
	Council assists in on-site physical locations. Customer to provide all equipment required to expose underground services.	\$75.92/hr for 1st hour or part thereof then \$18.51 per 15 mins or part thereof thereafter
	Council undertakes on-site physical locations. Council to provide all equipment and labour to expose underground services.	\$126.53/hr for 1st hour or part thereof then \$31.48 per 15 mins or part thereof thereafter

<b>Column 1</b>	<b>Column 2</b>	<b>Column 3</b>
<b>No</b>	<b>Ancillary and miscellaneous services</b>	<b>Charge</b>
<b>22</b>	<b>Plumbing and Drainage Inspection (inclusive of GST)</b>	
	Residential single dwelling, villas & units	\$153.07/unit
	Alterations, Caravan & Mobile Homes	\$77.15/permit
	Commercial and industrial	\$153.07 + \$44.43/wc
	Additional Inspections	\$56.78/ inspection
<b>23</b>	<b>Billings Record Search - Further Back than 5 Years</b>	\$16.83 for first 15 mins or part thereof then \$11.22 per 15 mins or part thereof thereafter
<b>24</b>	<b>Relocate Existing Stop Valve or Hydrant</b>	\$115.02/hr for 1st hour or part thereof then \$28.61 per 15 mins or part thereof thereafter
	Price exclusive of plant hire charges, material costs and traffic control where applicable	
<b>25</b>	<b>Provision of Water Services</b>	
	Application for water service connection fee is also applicable.	
	Meter Only (20mm):	\$98.76
	Short service - 20mm:	\$599.28
	Long service - 20mm:	\$599.28
	Short service - 25mm:	\$727.22
	Long service - 25mm:	\$727.22
	Short service - 40mm:	\$1,366.91
	Long service - 40mm:	\$1,816.94
	Short service - 50mm:	\$1,950.49
	Long service - 50mm:	\$2,405.01
	Larger services – provision of live main connection only. Price exclusive of plant hire charges, material costs and traffic control where applicable	\$115.02/hr for 1st hour or part thereof then \$28.61 per 15 mins or part thereof thereafter
<b>26</b>	<b>Water Sample Analysis (inclusive of GST)</b>	\$77.14
	For testing of standard water quality parameters (Private supplies)	

Table 17

<b>Column 1</b>	<b>Column 2</b>	<b>Column 3</b>
<b>No</b>	<b>Ancillary and miscellaneous services</b>	<b>Charge</b>
<b>27</b>	<b>Raise / Lower / Adjust Existing Service</b> No more than 2 metres from existing location 20mm service only - no materials: (Larger services >20mm – based on quote by Council. That quote excludes GST)	\$115.60
<b>28</b>	<b>Relocate Existing Services</b> Short - 20mm: Long - 20mm: (Larger services >20mm – based on quote by Council. That quote excludes GST)	\$291.78 \$454.52
<b>29</b>	<b>Alteration from Dual Service to Single Service</b> 20mm service only:	\$349.03
<b>30</b>	<b>Sewerage Drainage Arrestor</b> Approval: Annual Inspection:	\$94.27 \$28.61
<b>31</b>	<b>Sewerage Junction Cut-in (150mm)</b> No excavation, no concrete encasement removal, no sideline, junction within property. Excavation provided by customer	\$283.93 inc GST
<b>32</b>	<b>Sewerage Junction Cut-in (150mm) with sideline less than 3m</b> No excavation, no concrete encasement removal, junction outside property. Excavation provided by customer	\$297.39 inc GST
<b>33</b>	<b>Sewerage Junction Cut-in (225mm)</b> No excavation, no concrete encasement removal, no sideline, junction within property. Excavation provided by customer	\$664.37 inc GST
<b>34</b>	<b>Sewerage Junction Cut-in (225mm) with sideline less than 3m</b> No excavation, no concrete encasement removal, junction outside property. Excavation provided by customer	\$701.40 inc GST
<b>35</b>	<b>Sewerage Junction Cut-in Greater than 225mm or where excavation or removal of concrete encasement required by Council</b> Price exclusive of plant hire charges, material costs and traffic control where applicable.	\$126.53/hr for 1st hour or part thereof then \$31.48 per 15 mins or part thereof thereafter inc GST

<b>Column 1</b>	<b>Column 2</b>	<b>Column 3</b>
<b>No</b>	<b>Ancillary and miscellaneous services</b>	<b>Charge</b>
<b>36</b>	<b>Sewer Main Encasement with Concrete</b> Encasement inspection fee when construction is not by Council (By quote when construction by Council. That quote excludes GST)	\$95.94
<b>37</b>	<b>Sewer Advance Scheme - Administration Charge</b>	\$250.60 inc GST
<b>38</b>	<b>Raise &amp; Lower Sewer Manholes</b> Raise or lower manhole greater than 300mm (Price listed is for manhole adjustment inspection fee. Charges for actual physical adjustment is by quote)	\$95.95
<b>39</b>	<b>Disconnection of existing service</b> This charge is for physical disconnection work. An "Application for Disconnection" charge (Service No. 9) is also applicable	\$113.87
<b>40</b>	<b>Septic and chemical toilet waste</b>	\$14.50/kL

## Schedule 6 Statement of Reasons under section 13A(3) IPART Act

Under s13A of the IPART Act, IPART may set maximum prices, determine a methodology for setting maximum prices or both. In this determination, IPART has set maximum prices for each year of the regulatory period, and has included a methodology for fixing the maximum price for water service charges if Council is required by order of the Minister for Climate Change and the Environment to make an annual contribution under s34J of the EUA Act to the Climate Change Fund.

IPART is of the opinion that any contribution by the Council to the Climate Change Fund should be incorporated into the water service charges. However, no order has been made at the date of publication of this determination. By setting a methodology, IPART is able to provide for a contribution to the Climate Change Fund to be included in the water service charges, were an order to be made after publication of this determination.



## Schedule 7 — Definitions and Interpretations

### 1 Definitions

#### 1.1 General definitions

In this determination:

**AWTS** means the Aerated Wastewater Treatment System to treat sewage and liquid waste in a septic tank system.

**Category 1 Trade Waste Discharge** means an activity deemed by Council as requiring nil or minimal pre-treatment equipment and whose effluent is well defined or is a relatively low risk to the Sewerage System and where:

- (a) such activity is being conducted on a Non Residential Property; and
- (b) the trade waste from such activity is being discharged into the Sewerage System.

**Category 2 Trade Waste Discharge** means an activity deemed by Council as requiring a prescribed type of liquid trade waste pre-treatment equipment and whose effluent is well characterised and where:

- (c) such activity is being conducted on a Non Residential Property; and
- (d) the trade waste from such activity is being discharged into Sewerage System.

**Category 3 Trade Waste Discharge** means an activity deemed by Council as an industrial nature and/or which results in large volumes of liquid trade waste and where:

- (a) such activity is being conducted on a Non Residential Property; and
- (b) the trade waste from such activity is being discharged into Sewerage System.

**Climate Change Fund** means the climate change fund established under the EUA Act or such other fund which replaces, or substantially replaces, this fund.

**Commencement Date** is defined in clause 2(b) of the *Preliminary* section of this determination.

**Common Water Meter** means a Meter which is connected or available for connection to Multi Premises, where the Meter measures the water usage to that Multi Premises but not to each relevant Property located on or within that Multi Premises.

**Community Development Lot** has the meaning given to that term under the *Community Land Development Act 1989* (NSW).

**Community Parcel** has the meaning given to that term under the *Community Land Development Act 1989* (NSW).

**Company Title Building** means a building owned by a company where the issued shares of the company entitle the legal owner to exclusive occupation of a specified dwelling within that building.

**Company Title Dwelling** means a dwelling within a Company Title Building.

**Council** means the Council as defined in clause 1(b) of the *Preliminary* section of this determination.

**df% or Discharge Factor** means, in relation to a Property, the percentage of water supplied to that Property which the Council assesses or deems to be discharged into the Sewerage System.

**EUA Act** means the *Energy and Utilities Administration Act 1987* (NSW).

**Exempt Land** means land described in Schedule 4 of the Water Management Act.

**GST** means the Goods and Services Tax as defined in *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

**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).

**kL** means kilolitre or one thousand litres.

**Local Government Act** means the *Local Government Act 1993* (NSW).

**Meter** means an apparatus for the measurement of water.

**Metered Non Residential Property** means a Non Residential Property that is serviced by a Meter.

**Metered Property** means a Metered Residential Property or a Metered Non Residential Property.

**Metered Residential Property** means a Residential Property that is serviced by a Meter.

**Monopoly Services** means the Monopoly Services as defined in clause 1(b) of the *Preliminary* section of this determination.

**Multi Premises** means land where there are two or more Properties (other than Properties which fall within paragraph (f) of the definition of 'Property') located on it, excluding land where there are hotels, motels, guest houses or backpacker hostels.

**Non Residential Property** means a Property that is not a Residential Property or Vacant Land.

**Order** means the Order defined in clause 1(b) of the *Preliminary* section of this determination and published in the Government Gazette No. 18 on 14 February 1997.

**Property** includes:

- (a) a Strata Title Lot;
- (b) a Company Title Dwelling;
- (c) a Community Development Lot;
- (d) a Retirement Village Unit;
- (e) a part of a building lawfully occupied or available for occupation (other than a building to which paragraphs (a) to (d) inclusive apply); or
- (f) land.

**Rateable Land** has the meaning given to that term under the Local Government Act.

**Residential Property** means a Property where:

- (a) in the case of that Property being Rateable Land, that Property is categorised as:
  - (1) residential under section 516 of the Local Government Act; or
  - (2) farmland under section 515 of the Local Government Act; or
- (b) in the case of that Property not being Rateable Land, the dominant use of that Property is residential applying the classifications in section 516 of the Local Government Act.

**Retirement Village** has the meaning given to that term under the *Retirement Villages Act 1999* (NSW).

**Retirement Village Unit** means a unit located within a Retirement Village.

**Sewerage System** means the sewerage system owned and operated by the Council.

**Strata Title Building** means a building that is subject to a strata scheme under the *Strata Schemes (Freehold Development) Act 1973* (NSW).

**Strata Title Lot** means a lot as defined under the *Strata Schemes (Freehold Development) Act 1973* (NSW).

**Unit Entitlement** when applied to a Strata Title Lot, has the meaning given to that term under the *Strata Schemes (Freehold Development) Act 1973* (NSW) and when used in relation to a Community Development Lot, has the meaning derived under the *Community Land Development Act 1989* (NSW).

**Vacant Land** means land with no capital improvements on it.

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

**Water Supply System** means the water supply system owned and operated by the Council.

## 1.2 Consumer Price Index

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

$$(b) \quad \Delta CPI_1 = \left( \frac{CPI_{Jun2009} + CPI_{Sep2009} + CPI_{Dec2009} + CPI_{Mar2010}}{CPI_{Jun2008} + CPI_{Sep2008} + CPI_{Dec2008} + CPI_{Mar2009}} \right) - 1$$

$$\Delta CPI_2 = \left( \frac{CPI_{Jun2010} + CPI_{Sep2010} + CPI_{Dec2010} + CPI_{Mar2011}}{CPI_{Jun2008} + CPI_{Sep2008} + CPI_{Dec2008} + CPI_{Mar2009}} \right) - 1$$

$$\Delta CPI_3 = \left( \frac{CPI_{Jun2011} + CPI_{Sep2011} + CPI_{Dec2011} + CPI_{Mar2012}}{CPI_{Jun2008} + CPI_{Sep2008} + CPI_{Dec2008} + CPI_{Mar2009}} \right) - 1$$

each as calculated by IPART and notified in writing by IPART to the Council.

- (c) The subtext (for example  $_{Jun2008}$ ) when used in relation to paragraph (b) above means the CPI for the quarter and year indicated (in the example the June quarter for 2008).

## 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, annexure, clause or table is a reference to a schedule, annexure, clause or table to this determination;
- (c) words importing the singular include the plural and vice versa;
- (d) a reference to a law or statute includes all amendments or replacements of that law or statute;
- (e) a reference to an officer includes a reference to the officer which replaces him or her or which substantially succeeds to his or her powers or functions;
- (f) a reference to a body, whether statutory or not:
  - (i) which ceases to exist; or
  - (ii) 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 as if that clarification notice formed part of this determination.

### 2.3 Prices exclusive of GST

Prices or charges specified in this determination do not include GST (unless indicated otherwise).

### 2.4 Billing cycle of Council

For the avoidance of doubt nothing in this determination affects when the Council may issue a bill to a customer for prices or charges under this determination.



# **Gosford City Council Wyong Shire Council**

**Prices for water, sewerage and stormwater drainage  
services from 1 July 2009 to 30 June 2013**

**Water — Draft Report**  
March 2009





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# 1 Introduction and executive summary

The Independent Pricing and Regulatory Tribunal of NSW (IPART) is currently reviewing the prices Gosford City Council and Wyong Shire Council can charge for providing water, sewerage<sup>1</sup> and stormwater drainage services and ancillary services. The purpose of the review is to determine the maximum prices for these services from 1 July 2009 to 30 June 2013 (the 2009 determination period).

This draft report explains IPART's draft determinations on the prices, including the rationale and analysis that underpin IPART's draft decisions. IPART is seeking submissions from stakeholders on the draft report and determinations, which it will consider before making its final determinations in May 2009. Details on how to make a submission are provided on page iii at the front of this report. Please note that the closing date for submissions is 27 March 2009.

## 1.1 Summary of price outcomes

IPART's draft determinations result in real<sup>2</sup> increases in the prices each Council can charge for water, sewerage and stormwater drainage services over the 2009 determination period. IPART considers these price increases are needed to ensure the Councils' prices better reflect the efficient costs of providing the services, including the costs of increasing the security of the water supply and earning a realistic rate of return on the assets they have invested in. IPART has had regard to the potential impact of the price increases on customers, the environment and the Councils' financial viability. It considers that the draft determinations appropriately balance the competing needs and interests of each.

The sections below summarise the outcomes under the draft determinations for each council's customers and revenue position, and compare these outcomes. Please note that all figures in this report are presented in 2008/09 dollars (unless otherwise stated).

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<sup>1</sup> Including trade waste.

<sup>2</sup> 'Real' increases in prices or customer bills mean the increases are in addition to any movements in the consumer price index (CPI). Therefore, the actual increase in a particular year will reflect the real increase allowed under IPART's determination, plus any increase (or decrease) in inflation over that year.

### 1.1.1 Gosford City Council

#### Outcomes for customers

Under the draft determination for Gosford City Council (Gosford Council), the prices Gosford Council can charge residential and non-residential customers for water, sewerage and stormwater drainage increase in real terms in each year of the determination period. The largest increases occur in 2009/10. Table 1.1 shows the price increases for residential customers.

**Table 1.1 Gosford City Council: Draft determination on water, sewerage and stormwater drainage charges for residential customers (\$2008/09)**

		2008/09	2009/10	2010/11	2011/12	2012/13	Overall increase
Water	Service pa	88.48	98.39	101.77	102.85	103.78	
Year on year increase			11.2%	3.4%	1.1%	0.9%	17.3%
	Usage per kL	1.67	1.71	1.76	1.82	1.89	
Year on year increase			2.5%	3.0%	3.5%	3.5%	13.1%
Sewerage	Service pa	399.40	440.08	457.10	474.76	493.07	
Year on year increase			10.2%	3.9%	3.9%	3.9%	23.5%
Stormwater drainage	Service pa	60.82	65.08	68.01	71.08	74.29	
Year on year increase			7.0%	4.5%	4.5%	4.5%	22.1%

**Note:** Water Service charge is based on a 20mm meter.

IPART considers these increases necessary to ensure that the Council can deliver its capital expenditure program over the next four years. This program is designed to improve the reliability and quality of Gosford's water supply, and meet the increasing demand for water in the area. It includes investment in the Mardi to Mangrove Link and associated schemes<sup>3</sup> and the Balickera pre-treatment facilities.<sup>4</sup> It also includes upgrades to sewage treatment plants to improve infrastructure reliability and minimise the risk of environmental harm, and a high number of stormwater drainage projects to reduce the backlog of work that has existed for some years. However, to moderate the impact of this large capital program on customers, IPART considers the council can incorporate efficiency savings over the determination period.

Table 1.2 shows the contribution IPART's draft decisions on Gosford Council's requirements for operating expenditure and capital investment make to the expected increase in a typical residential customer's bill for water, sewerage and stormwater drainage services over the determination period.

Of the increase attributed to additional capital expenditure IPART's modelling indicates that approximately \$30 is to pay for water security, with \$18 for the Mardi

<sup>3</sup> Enables the transfer of water from Mardi Dam to Mangrove Creek Dam.

<sup>4</sup> This scheme increases water yield and enables the Councils to access water from Hunter Water.

to Mangrove Link and \$12 for the Mardi Dam suite of works. In addition, \$29 is to improve the reliability of the sewerage system, with \$18 for the Terrigal to Kincumber augmentation and \$11 on other sewerage system reliability projects. Works to improve the Kincumber Sewage Treatment Plant to comply with current DECC<sup>5</sup> standards contributes a further \$20 to the bill increases.

**Table 1.2 Gosford City Council: Contribution of requirements for operating expenditure and capital investment to expected increase in a typical residential customer's bill, 2008/09 to 2012/13 (\$2008/09)**

	IPART draft determination	
<b>- Operating expenditure</b>		<b>-\$3</b>
<b>- Capital investment:</b>		
<b>Water security</b>		
Mardi to Mangrove	\$18	
Mardi suite of works	\$12	
	<b>\$30</b>	
<b>Reliability of sewerage system</b>		
Terrigal to Kincumber augmentation	\$18	
Sewerage system reliability	\$11	
Kincumber Sewage Treatment Plant	\$20	
	<b>\$49</b>	
<b>Other system augmentation capital expenditure</b>	<b>\$24</b>	
		<b>\$103</b>
<b>- Return on assets</b>		<b>\$66</b>
<b>Total</b>		<b>\$166</b>

**Note:** Gosford City Council proposed increase is \$232, comprising \$21 for increased operating expenditure, \$135 for system augmentation and \$76 for an increase in return on assets.

**Note:** Typical bills are based on households with water, sewerage and stormwater drainage services consuming 200kL of water per annum. Bills exclude charges related to Gosford Council's contributions to the Climate Change Fund.

**Source:** Gosford City Council Submission and IPART calculations.

The percentage increase in residential customers' bills as a result of the draft determination varies, depending on the household's water consumption. For example, Table 1.3 shows that households with consumption of 100kL per annum will face real bill increases of 4.7 per cent per annum (on average) over the determination period. In comparison, households with consumption of 750kL per annum will face real bill increases of 3.8 per cent per annum (on average). In dollar terms, households with higher water consumption will face larger bill increases than those with lower consumption. Over the next four years households with consumption of 100kL will face bill increases of \$144 in total whilst those households with consumption of 750kL will face bill increases of \$286 as the water usage charge rises from \$1.67 per kL in 2008/09 to \$1.89 per kL in 2012/13.

<sup>5</sup> NSW Department of Environment and Climate Change.

**Table 1.3 Gosford City Council: expected increases in residential annual bills for customers with varying water consumption (\$2008/09)**

	2008/09	2009/10	2010/11	2011/12	2012/13	Change 2008/09 to 2012/13
<b>IPART draft decision</b>						
100 kL pa	716	774	803	831	860	144
% increase		8.2%	3.6%	3.5%	3.5%	20.1%
200 kL pa	883	945	978	1,013	1,049	166
% increase		7.1%	3.5%	3.6%	3.5%	18.8%
750 kL pa	1,801	1,886	1,945	2,016	2,087	286
% increase		4.7%	3.2%	3.7%	3.5%	15.9%

**Note:** This excludes charges related to Gosford Council's contributions to the Climate Change Fund.

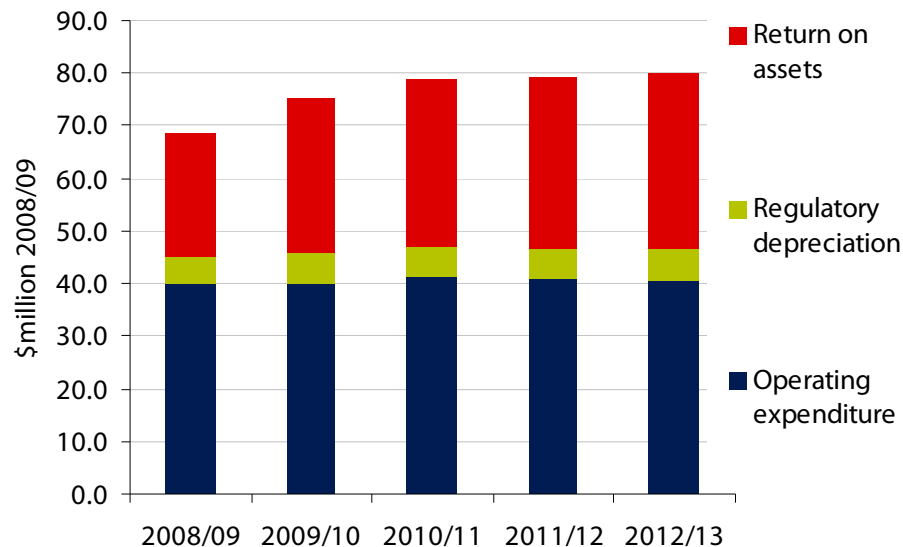
The increase in commercial and industrial customers' bills will also vary, depending on the level of water used. However, as the water usage patterns of commercial and industrial customers are more diverse than those of residential customers, it is difficult to draw general conclusions about the impact of the draft determination on these customers.

### Outcomes for Gosford Council

Figure 1.1 shows IPART's draft decisions on Gosford Council's notional revenue for each year of the determination period, and compares this to the revenue IPART allowed for in 2008/09 in making the 2006 Determination. As the figure indicates, most of the increase in the notional revenue over the 2009 determination period is due to increases in the return on assets component. The size of this component increases from \$23.8 million in 2008/09 to \$33.5 million in 2012/13 (or from 35 per cent to 42 per cent of the total notional revenue). In contrast, the operating expenditure component remains largely the same size as it was in 2008/09, and decreases as a percentage of the total notional revenue (from 58 per cent in 2008/09 to 50 per cent in 2012/13).



**Figure 1.1 Gosford City Council: Draft decisions on notional revenue for 2009/10 to 2012/13 (\$2008/09)**



The increase in the return on assets component is due to increases in the value of Gosford Council's regulatory asset base (RAB) as a result of the capital program it is undertaking, as well as an increase in the rate of return IPART has applied to the RAB. In making the draft determination, IPART applied a rate of return of 7.0 per cent (real pre-tax) to the RAB in 2012/13,<sup>6</sup> compared to 6.3 per cent (real pre-tax) in 2008/09.<sup>7</sup> This higher rate of return reflects changes in the underlying market parameters, particularly the debt margin between Commonwealth Government Bonds and the rate paid by other corporate borrowers.

Under the draft determination, IPART set prices to generate total revenue of \$289.9 million (\$2008/09) over the determination period. This amount reflects IPART's draft decisions on Gosford Council's target revenue for this period. IPART considers it is sufficient to enable Gosford Council to operate, maintain, renew and develop the assets required to deliver the regulated services, including implementing the capital investment program discussed above.

This revenue reflects IPART's draft decision to use a glide path approach in setting Gosford Council's prices. Under this approach, prices gradually increase towards a level that IPART considers reflects the full, efficient costs of providing the services, and reach this level in the last year of the determination period. Gosford Council

<sup>6</sup> Achieving 4.6 per cent, 5 per cent and 6 per cent (real pre-tax) in 2009/10, 2010/11 and 2011/12 respectively.

<sup>7</sup> In the 2006 Determination the notional revenue requirement for 2008/09 was calculated based on a 6.3 per cent WACC (real pre-tax). However, IPART determined a rate of return for 2008/09 of 5.1 per cent (real pre-tax) after consideration of the factors set out in section 15 of the IPART Act.

will forego \$23.7 million in revenue over the four years of this period as a result of this decision.

IPART's analysis and financial modelling indicates that Gosford Council will achieve a credit rating of at least BBB+ in each year of the 2009 determination period, with an overall rating of AA+ in the final year.

The inclusion of an allowance for a return on capital in the annual revenue requirement has two purposes. Firstly, it ensures that the price of water fully reflects the cost of resources employed in providing the service. This assists in the important function of signalling to the users of these services the full costs of those services and the cost consequences of their consumption decisions. Secondly, it ensures that the shareholder receives appropriate compensation for committing capital to the business and bearing the risks associated with the business. This ensures Gosford Council's financial viability throughout this determination period and provides a good basis for future years.

### 1.1.2 Wyong Shire Council

#### Outcomes for customers

Under the draft determination, the prices Wyong Shire Council (Wyong Council) can charge for water, sewerage and stormwater drainage increase in real terms. Table 1.4 shows the price increases for residential customers.

**Table 1.4 Wyong Shire Council: Draft determination on water, sewerage and stormwater drainage charges for residential customers (\$2008/09)**

		2008/09	2009/10	2010/11	2011/12	2012/13	Overall increase
<b>Water</b>	Service pa	97.31	98.00	121.12	146.16	175.06	
Year on year increase			0.7%	23.6%	20.7%	19.8%	79.9%
	Usage per kL	1.67	1.71	1.76	1.82	1.89	
Year on year increase			2.5%	3.0%	3.5%	3.5%	13.2%
<b>Sewerage</b>	Service pa	412.67	412.81	416.93	421.08	425.29	
Year on year increase			0.0%	1.0%	1.0%	1.0%	3.1%
<b>Stormwater<sup>a</sup></b>	Service pa	0.00	80.00	80.00	80.00	80.00	
Year on year increase			100.0%	0.0%	0.0%	0.0%	100.0%

**Note:** Water Service charge is based on a 20mm meter.

<sup>a</sup> Please note that Table 1.4 above shows that a separate stormwater drainage charge will be introduced in 2009/10. Under the current determination, Wyong Council recovers the costs associated with providing stormwater drainage services through the water service and sewerage service charges. For the draft determination, a separate stormwater drainage charge of \$80.00 will be introduced in 2009/10. Wyong Council had proposed making this change revenue neutral by decreasing the water service and sewerage service charge. However, the increase in the revenue requirement for Wyong Council has necessitated an increase in the water and sewerage services charges over and above the reduction that would have attributable to the introduction of the stormwater drainage charge.

IPART considers these price increases are necessary so that Wyong Council's water, sewerage and stormwater charges more accurately reflect the efficient costs of providing those services. In particular, the price increases are needed to enable the Council to recover its efficient operating costs and earn a realistic rate of return on its assets. The Council's efficient operating costs have increased since the last determination, as the large capital program it is implementing has led to higher maintenance costs. The Council needs to earn a realistic rate of return on its assets (ie, a rate comparable with other metropolitan water businesses) to ensure it can generate sufficient funds to invest in necessary infrastructure, such as the Mardi to Mangrove Link.

Table 1.5 shows the contribution IPART's draft decisions on Wyong Council's revenue requirements for operating expenditure and capital investment make to the expected increase in a typical residential customers bill for water, sewerage and stormwater drainage services over the determination period.

Of the increase attributed to additional capital expenditure IPART's modelling indicates that approximately \$37 is to pay for water security, with \$22 for the Mardi to Mangrove Link and \$15 for Mardi Dam suite of works. In addition, \$80 is attributable to targeting a rate of return of 7.0 per cent (real pre-tax) and a further \$59 is for renewing existing infrastructure. The increase in the allowance for operating expenditure adds \$39 to the bill.

**Table 1.5 Wyong Shire Council: Contribution of requirements for operating expenditure and capital investment to the expected increase in a typical residential customer's bill, 2008/09 to 2012/13 (\$2008/09)**

	IPART draft determination
<b>- Operating expenditure</b>	<b>\$39</b>
<b>- Capital investment:</b>	
<b>Water security</b>	
Mardi to Mangrove	\$22
Mardi suite of works	\$15
	<b>\$37</b>
<b>Other system augmentation capital expenditure</b>	<b>\$59</b>
	<b>\$96</b>
<b>- Return on assets</b>	<b>\$80</b>
<b>Total</b>	<b>\$215</b>

**Note:** Typical bills are based on households with water, sewerage and stormwater drainage services consuming 200kL of water per annum. Bills have been adjusted to exclude charges related to Wyong Councils' contributions to the Climate Change Fund.

**Source:** Wyong Shire Council Submission and IPART calculations.

The percentage increase in residential customers' combined annual bills for water, sewerage and stormwater drainage services as a result of the draft determination varies, depending on the household's water consumption. For example, Table 1.6 shows that households with consumption of 100kL per annum will face average real

bill increases of 6.5 per cent per annum over the determination period. In comparison, households with consumption of 750kL per annum will face average real bill increases of 4.5 per cent per annum.<sup>8</sup> In dollar terms, households with higher water consumption will face larger bill increases than those with lower consumption. Over the next four years households with consumption of 100kL will face bill increases of \$193 in total whilst those households with consumption of 750kL will face bill increases of \$337 as the water usage charge rises from \$1.67 per kL in 2008/09 to \$1.89 per kL in 2012/13.

**Table 1.6 Wyong Shire Council: expected increases in residential annual bills for customers with varying water consumption (\$2008/09)**

	2008/09	2009/10	2010/11	2011/12	2012/13	Change 2008/09 to 2012/13
<b>IPART draft decision</b>						
100kL pa	677	762	795	830	870	193
% increase		12.5%	4.3%	4.5%	4.7%	28.5%
200kL pa	844	932	971	1,013	1,059	215
% increase		10.5%	4.1%	4.3%	4.5%	25.5%
750kL pa	1,761	1,872	1,941	2,018	2,098	337
% increase		6.3%	3.7%	4.0%	3.9%	19.1%

**Note:** This excludes charges related to Wyong Council's contributions to the Climate Change Fund.

**Source:** Wyong Shire Council Submission and IPART's calculations.

The increase in commercial and industrial customers' bills will also vary, depending on the level of water used. However, as the water usage patterns of commercial and industrial customers are more diverse than those of residential customers, it is difficult to draw general conclusions about the impact of the draft determination on these customers.

### Outcomes for Wyong Council

For the draft determination, IPART set prices to generate total revenue of \$262.1 million (\$2008/09) over the determination period. This amount reflects IPART's draft decisions on Wyong Council's target revenue over this period. IPART considers it is sufficient to enable Wyong Council to operate, maintain, renew and develop the assets required to deliver the regulated services. In particular, it is sufficient to enable the Council to:

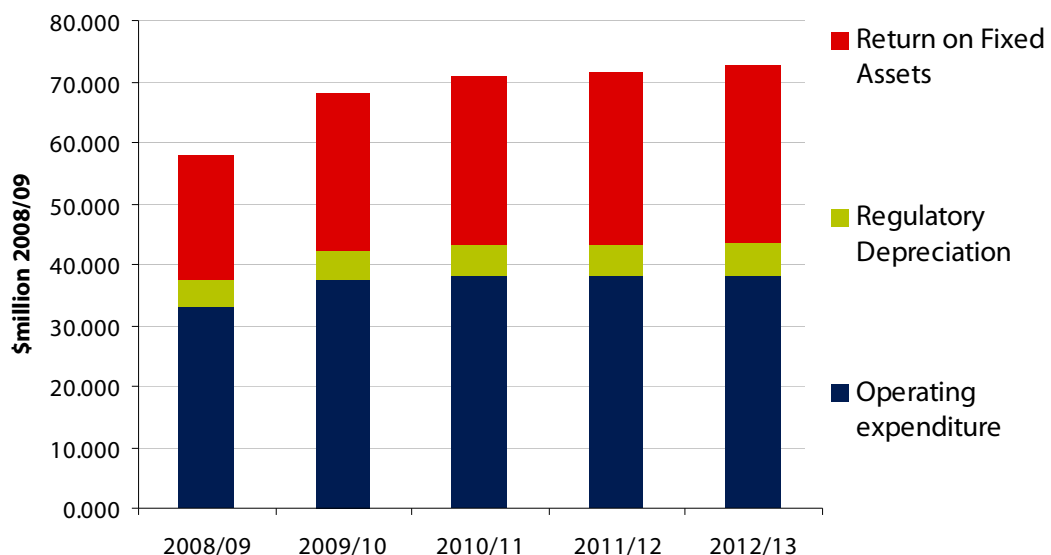
- ▼ progress projects to improve the security of the water supply and the availability of water, including the Mardi to Mangrove Link

<sup>8</sup> It should be noted that households with higher levels of consumption experienced much higher bill increases under the last determination. For example, while the bills of those with consumption of 100kL pa increased by an average of 3.3 per cent (real) per year between 2006/07 and 2008/09, the bills of those with consumption of 750kL pa increased by an average 12.5 per cent (real) per year.

- ▼ provide infrastructure for new growth centres<sup>9</sup>
- ▼ increase the capacity of the water and sewerage system to improve performance and reliability of the system.

Figure 1.2 shows IPART's draft decisions on Wyong Council's notional revenue over the determination period, and compares them to revenue for 2008/09 IPART allowed for in making the 2006 Determination. As the figure indicates, most of the increase in the Council's notional revenue over the 2009 determination period is due to increases in the return on assets component. The size of this component increases from \$20.3 million in 2008/09 to \$29.1 million<sup>10</sup> in 2012/13. The size of the operating expenditure component also increases, from \$33.1 million in 2008/09 to \$38.3 million in 2012/13.

**Figure 1.2 Wyong Shire Council: Draft decisions on notional revenue for 2009/10 to 2012/13 (\$2008/09)**



The increase in the return on assets component is due to increases in the value of Wyong Council's regulatory asset base (RAB) as a result of the capital program it is undertaking, as well as an increase in the rate of return IPART has applied to the RAB. In making the draft determination, IPART applied a rate of return of 7.0 per cent (real pre-tax) to the RAB in 2012/13,<sup>11</sup> compared to 5.5 per cent (real pre-tax) in 2008/09.<sup>12</sup> This higher rate of return reflects changes in the underlying market

<sup>9</sup> Although these costs will be recovered over time, predominantly from new customers.

<sup>10</sup> This amount does not include the deferred recovery capital expenditure. This is discussed more fully in Section 9.2.5

<sup>11</sup> Achieving 4.3 per cent, 4.9 per cent and 5.9 per cent (real pre-tax) in 2009/10, 2010/11 and 2011/12 respectively.

<sup>12</sup> In making the 2006 Determination, IPART targeted a rate of return on Wyong Council's RAB of 6.3 per cent (real pre-tax). However, the rate of return the council will actually earn for 2008/09 is estimated to be 5.5 per cent.

parameters, particularly the debt margin between Commonwealth Government Bonds and the rate paid by other corporate borrowers.

The increase in the operating expenditure component is 17 per cent higher than allowed for under the 2006 Determination, but 13 per cent below that proposed by Wyong Council and 5 per cent below that recommended by the consultants IPART engaged to provide expert advice (Halcrow Pacific Pty Ltd). In light of the many concerns Halcrow raised about Wyong Council's proposed operating expenditure, and the fact that consultants for previous price reviews had expressed similar concerns, IPART made its draft decision on Wyong Council's operating expenditure by benchmarking it to Gosford Council's operating expenditure on a per customer connection basis.

In addition, IPART has made a draft decision to use a glide path approach in setting Wyong Council's prices. Under this approach, prices gradually increase towards a level that IPART considers reflects the full, efficient costs of providing the services, and reach this level in the last year of the determination period. This decision is intended to moderate the impact of the price increases on customers. However, because the Council's current prices are significantly lower than the efficient cost level, it will also result in the Council foregoing \$21.8 million in revenue over the determination period.

Further, IPART has made a draft decision to defer the recovery of a significant portion of Wyong Council's forecast growth-related capital costs over the 2009 determination period. These costs relate to new assets to service the new development area of Warnervale plus other redevelopment areas to accommodate forecast increases in the population. This decision is intended to enable more of the costs of growth-related assets to be recovered through future periodic charges and developer charges, rather than through current periodic charges, and so protect the Council's current customers from substantial price increases.

Overall, IPART considers that these draft decisions – including determining the allowance for a return on assets by applying a realistic rate of return to the RAB, determining the operating expenditure by benchmarking it to Gosford Council's operating expenditure on a per customer connection basis, using a glide path, and deferring the recovery of some growth-related capital costs – strike the right balance between the need to moderate the impact of price increases on customers, encourage economic efficiency, and ensure Wyong Council's water, sewerage and stormwater drainage operations are financially viable.

IPART's analysis and financial modelling of outcomes under the draft determination indicate that Wyong Council will achieve an overall investment grade credit rating of BBB+ in the last year of the determination period.

### 1.1.3 Comparison of outcomes for Gosford City Council and Wyong Shire Council

Under the draft determination, each Council's prices are set to enable it to recover the full, efficient costs of providing its water, sewerage and stormwater drainage services in the last year of the determination period. As Wyong Council is currently under-recovering the costs of providing these services, its prices need to increase by more than Gosford Council's to achieve full cost recovery by this time.

However, as Table 1.7 shows, in the last year of the determination period the total cost of water, sewerage and stormwater drainage services for residential customers consuming 200kL of water per year is approximately the same in both the Gosford Council and Wyong Council areas. The water usage charge is also the same.

**Table 1.7 Comparison between prices and bills for Gosford City Council and Wyong Shire Council 2012/13 (\$2008/09)**

		Gosford City Council	Wyong Shire Council
Water	Service charge pa	103.78	175.06
	Usage/kL	1.89	1.89
Sewerage	Service charge pa	493.07	425.29
Stormwater	Service charge pa	74.29	80.00
Typical bill <sup>a</sup>		\$1,049	\$1,058

<sup>a</sup> Assumes 200kL consumption per annum.

**Note:** This excludes charges related to the Councils' contributions to the Climate Change Fund.

While there are some differences in the structure of the prices levied by each council,<sup>13</sup> IPART considers the outcomes for residential customers under the draft determination are fair and equitable, as residents within close proximity to each other will pay similar amounts in total for water, sewerage and stormwater drainage services.

For both Councils IPART found that due to the methodology for calculating pensioner rebates pensioners will experience a greater increase in their bill in percentage terms. **IPART recommends that the Government undertakes a review of the sufficiency of the current rebates and the way in which they are calculated and that the Local Government Act be amended to reflect any decisions the Government makes to amend the rebates following completion of the review.**

<sup>13</sup> To reflect the costs and investments in different areas of the business by each Council.

## 1.2 Structure of this report

The following chapters explain IPART's draft determination and decisions in detail, including the analysis supporting each decision:

- ▼ Chapter 2 outlines the scope and context for the review, including IPART's review process, the Councils' operating and regulatory environments, and their submissions to IPART.
- ▼ Chapter 3 outlines IPART's price setting approach and its draft decisions related to this approach.
- ▼ Chapters 4, 5 and 6 focus on Gosford Council. They provide an overview of IPART's draft decisions on the Council's notional revenue requirement, and discuss these decisions in detail.
- ▼ Chapters 7, 8 and 9 focus on Wyong Council. They provide an overview of IPART's draft decisions on the Council's notional revenue requirement, and discuss these decisions in detail.
- ▼ Chapter 10 sets out the assumptions on forecast metered water sales and customer numbers IPART adopted in analysing the Councils' expenditure requirements and ability to recover revenue.
- ▼ Chapter 11 sets out IPART's pricing decisions for the specific services provided by each council.
- ▼ Chapters 12 and 13 discuss the impact of IPART's draft pricing decisions on each council, its customers and the environment.



## 2 Scope and context for the review

IPART's review will determine the periodic charges for the water, sewerage<sup>14</sup> and stormwater drainage services that Gosford Council and Wyong Council provide to the residents of the Central Coast of NSW, as well as the charges for a range of miscellaneous and ancillary services that the Councils provide.

The review will not consider the developer charges the Councils levy, as IPART made a decision in respect of these charges in October 2000. In addition, it will not consider the costs associated with recycled water services and sewer mining. In line with IPART's 2006 determination<sup>15</sup> on the pricing arrangements for these services, IPART only determines recycled water prices for mandated schemes<sup>16</sup> where there is sufficient information for it to set efficient prices<sup>17</sup>. Since the Councils currently have no mandated schemes in their areas of operation IPART has excluded all costs and revenues associated with recycled water schemes from this determination.

The following sections outline the context for this price review, including IPART's review process, the matters it considered as part of this review, the Council's operations and regulatory environment, and each council's submission to the review.

### 2.1 Review process

IPART's review has included an extensive investigation and public consultation process. As part of the review, IPART:

- ▼ Released an Issues Paper in July 2008 to assist in identifying and understanding the key issues for review.
- ▼ Invited the Councils to make submissions detailing their pricing proposals, and required them to provide extensive financial and performance data on the future capital and operating expenditure necessary to maintain customer service levels and respond to regulatory demands.<sup>18</sup>

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<sup>14</sup> Including trade waste.

<sup>15</sup> IPART, *Pricing arrangements for recycled water and sewer mining*, Determinations No 8 and 9, September 2006.

<sup>16</sup> A mandated scheme requires customers to connect due to government policy.

<sup>17</sup> IPART published pricing guidelines for all other recycled water schemes. IPART, *Pricing arrangements for recycled water and sewer mining*, Reports No 8 and 9, September 2006, p 58 and p 64.

<sup>18</sup> Gosford Council's submission was received on 12 September 2008 and Wyong Council's submission was received on 17 September 2008.

- ▼ Invited other interested parties to make submissions on the Issues Paper and each Council's submission.<sup>19</sup>
- ▼ Held a public hearing in North Gosford on 14 November 2008 to discuss a wide range of issues raised by the Councils and other stakeholders.
- ▼ Engaged Halcrow Pacific Pty Limited (Halcrow) to review each Council's capital expenditure, asset planning and operating expenditure proposals.
- ▼ Engaged Sinclair Knight Merz (SKM) to review each Council's water consumption forecasts over the next four years, to comment on the robustness of the approach used by each Council to develop those forecasts, and to advise on the reasonableness of the assumptions on which the forecasts were based.

Copies of the Issues Paper, submissions and the transcript from the public hearing can be obtained from [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).

As Chapter 1 noted, IPART is now seeking submissions in response to this draft report and determination. IPART will consider all the matters raised in these submissions before it makes its final determination in May 2009. The new charges are expected to apply from 1 July 2009.

## 2.2 Matters considered

IPART is empowered to review and make determinations on the Councils' water, sewerage and stormwater prices under the *Independent Pricing and Regulatory Tribunal Act 1992* (IPART Act). Section 15 of this act requires IPART to consider a broad range of matters when conducting reviews. These matters include:<sup>20</sup>

- ▼ consumer protection – protecting consumers from abuses of monopoly power; the standards of quality, reliability and safety of the services concerned; the social impact of decisions; the effect on inflation
- ▼ economic efficiency – greater efficiency in the use and supply of services; the need to promote competition; the effect of functions being carried out by another body
- ▼ financial viability – the rate of return on public sector assets including dividend requirements; the impact on pricing of borrowing, capital and the dividend requirements of agencies
- ▼ environmental protection – the promotion of ecologically sustainable development by appropriate pricing policies; considerations of demand management and least-cost planning.

<sup>19</sup> A total of 17 written submissions were received from other interested parties.

<sup>20</sup> The section 15 requirements are listed in full in Appendix A.

In considering these matters, IPART must balance the diverse needs and interests of stakeholders while ensuring that the Councils are adequately recompensed for the services they provide. IPART also takes into account the principles issued by the Council of Australian Governments (COAG) and contained in the National Water Initiative (NWI).<sup>21</sup>

Because of the numerous complex and sometimes conflicting requirements that need to be addressed, IPART follows a determination process that provides a framework to efficiently deal with these requirements. The process is shown in Figure 2.1.

### 2.3 The Council's operations

Gosford Council provides water, sewerage and stormwater drainage services to a permanent population of approximately 160,000 people and its area of operations covers approximately 1,028 square kilometres. It provides water services to approximately 67,000 properties and sewerage services to approximately 65,000 properties.

Wyang Council provides water, sewerage and stormwater drainage services to a population of approximately 146,000 people and its area of operations covers approximately 827 square kilometres. It provides water services to approximately 62,000 properties and sewerage services to approximately 61,000 properties.

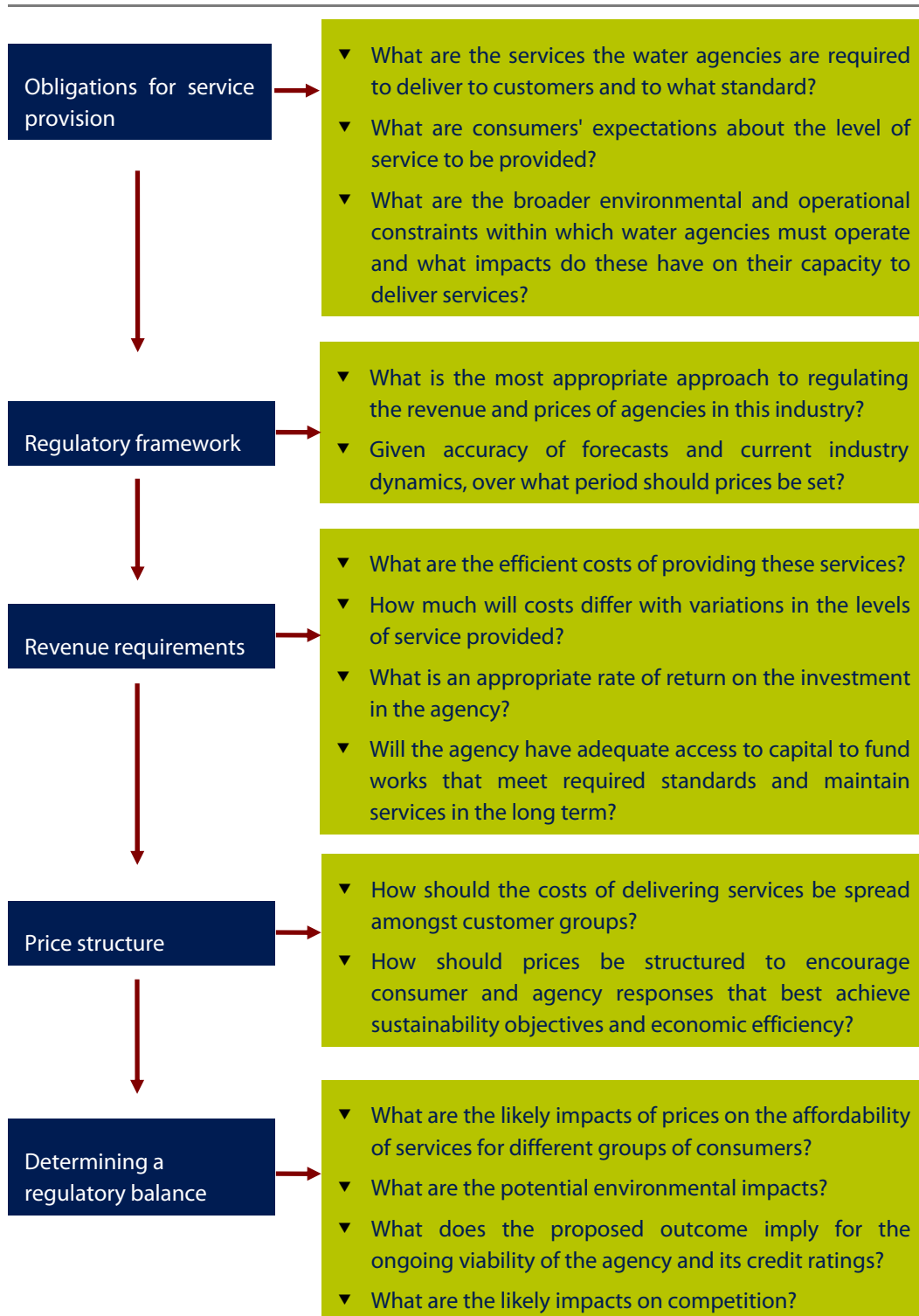
The Councils share a joint water headworks supply managed by the Gosford and Wyong Councils' Water Authority (the Authority). The major bulk water storages are Mooney Mooney and Mangrove Creek Dams in Gosford Council's area of operations and Mardi Dam in Wyong Council's area of operations. A schematic diagram of the Councils' water supply system is shown in Figure 2.2.

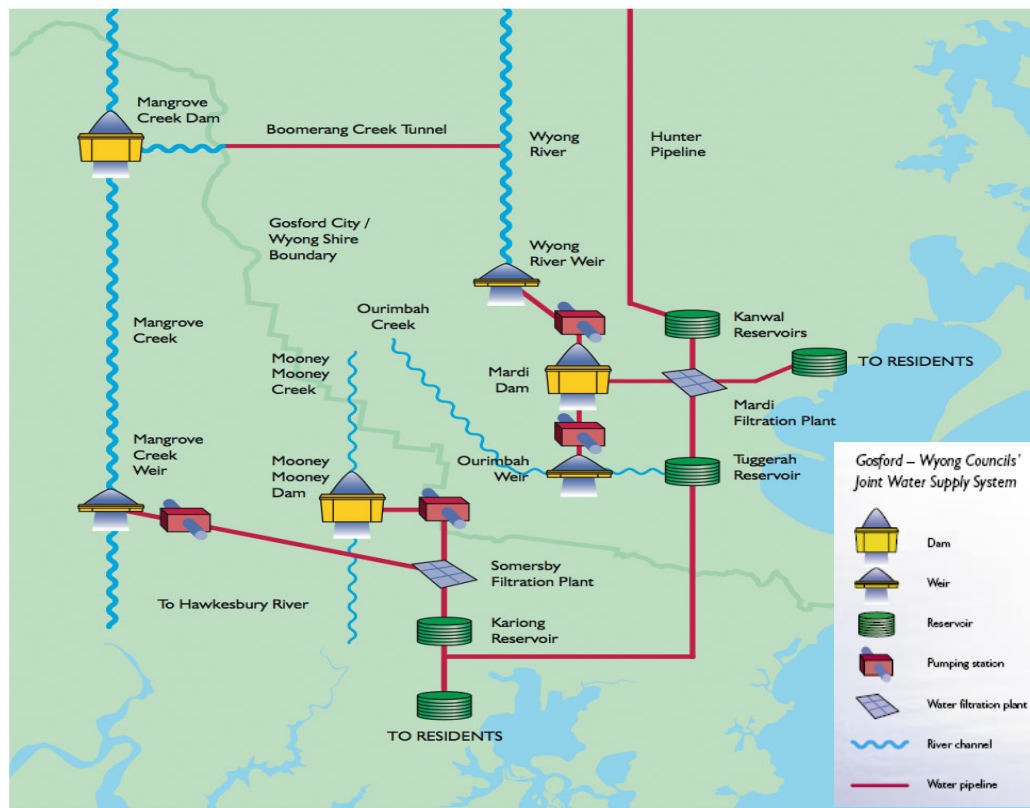
Gosford Council owns and operates approximately 1,000 km of water mains and approximately 1,400 km of sewerage mains and channels. In 2007/08, Gosford Council supplied over 12.0 GL of water. Wyong Council owns and operates over 1,100 km of water mains and approximately 1,200 km of sewerage mains and channels. In 2007/08, Wyong Council supplied over 10.8 GL of water.

The Councils act together as members of the Authority to manage the supply of bulk water. The Authority manages a number of major water projects (termed Joint Water Supply (JWS) projects) with the costs shared between the Councils. The Councils are responsible for the supply of water and the provision of sewerage and stormwater drainage services within their own local government areas.

<sup>21</sup> The National Water Initiative is built on the principles established in the 1994 COAG Water Reform Framework.

**Figure 2.1 IPART's determination process**



**Figure 2.2 Gosford and Wyong Councils' Water Authority water supply system**

**Source:** Gosford and Wyong Councils' Water Authority website, available from: [www.gwcwater.nsw.gov.au](http://www.gwcwater.nsw.gov.au).

Unlike the other metropolitan water agencies, the Councils do not have operating licences that set targets, outline compliance requirements and establish customer contracts. Instead, the Councils are required, under section 402 of the *Local Government Act 1993*, to develop annual management plans with respect to their activities, including water, sewerage and stormwater drainage services.

The *Central Coast Water Corporation Act 2006* provides for the formation of the Central Coast Water Corporation (the Corporation) and for the granting of an operating licence to the Corporation to ensure that its water supply, sewerage management and stormwater drainage services meet certain quality and performance standards (in relation to water quality, service interruptions, pricing and other matters). The provisions of this Act are not yet in force.

## 2.4 Regulators

Because the Councils are monopoly suppliers of water, sewerage and stormwater drainage services in their areas of operations, their water, sewerage and stormwater drainage functions are regulated to meet economic efficiency, social and environmental regulations. IPART is only one of the regulators involved. It is

responsible for setting the maximum prices that can be charged by the Councils for their monopoly services. Other principal regulators include:

- ▼ **Department of Water and Energy (DWE)**, which has primary responsibility for the management of water resources throughout NSW. DWE licenses the extraction of water from surface and groundwater sources under the *Water Management Act 2000* and the *Water Act 1912*.<sup>22</sup> These licences require the release of water for environmental purposes from a number of the Councils' storages,<sup>23</sup> and the provision of certain information to DWE.
- ▼ **Department of Environment and Climate Change (DECC)**, which is responsible for monitoring and regulating sewerage discharges from the Councils' sewerage system to the receiving waters. DECC issues Environment Protection Licences issued under the *Protection of the Environment Operations Act 1997* for the Councils' sewerage transportation and treatment systems. These licences stipulate both quality and quantity conditions for discharge from each sewerage treatment works, and specify operating controls and reporting requirements for the pipe network and pumping station.
- ▼ **NSW Health**, which is responsible for regulating the quality and safety of the Councils' drinking water.

In addition to these regulators, the Councils are also subject to planning approvals and regulatory requirements relating to their proposed developments.

## 2.5 Overview of Gosford City Council's submission

Gosford Council provided its initial submission to IPART in September 2008.

In relation to operating expenditure, Gosford Council's submission indicated that it had spent around 26 per cent more than the expenditure allowed for in IPART's 2006 Determination over the three years from 2006/07 to 2008/09. For the 2009 determination period, Gosford Council forecasts average operating expenditure of approximately \$42 million (\$2008/09) per year. This is slightly more than IPART's average 2006 Determination figure of \$41.2 million per year, but less than Gosford Council's actual expenditure over the previous period.

In relation to capital expenditure, Gosford Council's submission highlighted that it had also spent more than the expenditure allowed for in the 2006 Determination. For the final year of this determination (2008/09), the Council's expected capital expenditure is approximately three times higher than allowed for in the determination. Gosford Council attributes its higher capital spending to the drought, which necessitated increased expenditure to investigate additional sources of water. Gosford Council forecasts that these higher levels of capital expenditure will continue until 2010/11. The capital program is supported by significant Government grants in 2009/10 and 2010/11, of approximately \$20 million per year.

<sup>22</sup> Depending on whether a water sharing plan is in place for that water source.

<sup>23</sup> Under normal circumstances.

The notional revenue requirement proposed by Gosford Council (and its building block components)<sup>24</sup> is presented in Table 2.1 below.

**Table 2.1 Gosford City Council: Proposed notional revenue requirement (\$million 2008/09)**

	2009/10	2010/11	2011/12	2012/13
Operating expenditure	42.4	42.6	41.9	42.1
Return of RAB (depreciation)	6.5	6.8	7.2	7.5
Return on RAB	30.5	33.2	34.7	36.3
Return on working capital	0.3	0.4	0.5	0.5
<b>Notional revenue requirement</b>	<b>79.7</b>	<b>83.0</b>	<b>84.3</b>	<b>86.4</b>
<b>Smoothed revenue requirement</b>	<b>84.0</b>	<b>84.0</b>	<b>84.0</b>	<b>84.0</b>

**Note:** Column totals may not sum due to rounding.

**Source:** Gosford Council, *Amendment to Council's written submission*, 23 October 2008 plus IPART calculations.

Gosford Council's proposed prices are presented in Table 2.2 below.

**Table 2.2 Gosford City Council: Proposed water, sewerage and stormwater drainage prices for residential customers (\$2008/09)**

		2008/09	2009/10	2010/11	2011/12	2012/13	Change 2008/09 to 2012/13
<b>Water</b>	Service pa	88.48	95.82	103.78	112.39	121.72	
	% increase		8.3%	8.3%	8.3%	8.3%	37.6%
	Usage (\$/kL)	1.67	1.77	1.82	1.89	1.95	
	% increase		6.0%	2.8%	3.8%	3.2%	16.8%
<b>Sewerage</b>	Service pa	399.4	425.56	453.43	483.13	514.78	
	% increase		6.5%	6.5%	6.6%	6.6%	28.9%
<b>Stormwater drainage</b>	Service pa	60.82	65.8	72.34	79.43	87.21	
	% increase		8.2%	9.9%	9.8%	9.8%	43.4%

**Note:** Assumes a 20mm water meter. Non-residential customers also pay a sewerage usage charge. Prices exclude charges related to Gosford Council's contribution to the Climate Change Fund.

**Source:** Gosford Council submission, September 2008.

The implications of Gosford Council's pricing proposals for residential customers with various levels of water consumption are shown in Table 2.3 below.

<sup>24</sup> These terms are defined in chapter 3.

**Table 2.3 Gosford City Council: Impact of Council's proposed prices on combined annual water, sewerage and stormwater drainage bills for residential customers (\$2008/09)**

Water consumption	2008/09	2009/10	2010/11	2011/12	2012/13
100 kL pa	715.70	764.18	811.55	863.95	918.71
200 kL pa	882.70	941.18	993.55	1,052.95	1,113.71
300 kL pa	1,049.70	1,118.18	1,175.55	1,241.95	1,308.71
400 kL pa	1,216.70	1,295.18	1,357.55	1,430.95	1,503.71
750 kL pa	1,801.20	1,914.68	1,994.55	2,092.45	2,186.21

**Note:** Bills exclude charges related to Gosford Council's contribution to the Climate Change Fund.

**Source:** Gosford Council submission, September 2008 and IPART's calculations.

## 2.6 Overview of Wyong Shire Council's submission

Wyong Shire Council provided its initial submission to IPART in September 2008 and subsequently made adjustments to its proposed prices to more accurately account for inflation indexation.<sup>25</sup> Wyong Council did not calculate its revenue requirement based on the building block approach.<sup>26</sup> Instead it proposed prices to recover its operating and financing costs, plus a return equivalent to tax equivalents.<sup>27</sup>

In relation to operating expenditure, Wyong Council's submission indicated that it spent significantly more than the expenditure allowed for in IPART's 2006 Determination. It stated that much of this over-expenditure was due to the drought. For the 2009 determination period, Wyong Council forecasts an average operating expenditure of approximately \$43.9 million (\$2008/09) per year. Wyong Council's forecasts represent a real increase on the operating expenditure allowed for in the 2006 Determination, but a decrease on Wyong Council's actual expenditure over the 2006 determination period.

In relation to capital expenditure, Wyong Council's submission showed that over the three years of the determination period the Council spent \$142.6 million (\$2008/09), which is significantly more than the \$94.4 million (\$2008/09) allowed for in the 2006 determination. In 2006/07, it underspent by 23.9 per cent, while in 2008/09 it overspent by around 288 per cent compared to the capital expenditure allowed for in the 2006 Determination. In 2007/08, actual and allowed expenditure were roughly the same. Wyong Council attributes the major overspend in 2008/09 to the significant level of capital works undertaken to combat the drought conditions.

<sup>25</sup> This version and the updated AIR were received in October 2008.

<sup>26</sup> This term is defined in chapter 4,

<sup>27</sup> Wyong Council has based this proposal on the DWE Best Practice Management Guidelines that require that the dividend (rate of return) should be at least the equivalent of tax equivalents.



Wyang Council forecasts that its current levels of capital expenditure will roughly double over the next year (ie, from \$74.4 million in 2008/09 to \$134.5 million in 2009/10) and then rapidly decline again. This increase is largely as a result of the Mardi to Mangrove pipeline and water and sewerage infrastructure necessary to develop Warnervale and other growth areas. The Mardi to Mangrove pipeline program is supported by significant Government grants in 2009/10 and 2010/11, which are approximately \$20 million per year. Wyong Council has proposed capital expenditure of \$230.8 million (\$2008/09) in total over the four years of this determination.

The notional revenue requirement proposed by Wyong Council (and its building block components) is shown in Table 2.4 below.

**Table 2.4 Wyong Shire Council: Proposed notional revenue requirement (\$million 2008/2009)**

	2008/09	2009/10	2010/11	2011/12	2012/13
Operating expenditure	47.0	44.7	45.8	44.7	42.0
Return of RAB	4.0	5.2	5.8	6	6.1
Return on RAB	1.0	7.4	8.4	8.6	8.8
Return on working capital	0.0	-0.1	0.0	0.1	0.1
<b>Notional revenue requirement</b>	<b>51.8</b>	<b>57.2</b>	<b>60.0</b>	<b>59.4</b>	<b>57.0</b>

**Note:** Column totals may not sum due to rounding.

**Source:** IPART modelling based on Wyong Council's submission.

Wyang Council's proposed prices are presented in Table 2.5 below.

**Table 2.5 Wyong Council: Proposed water, sewerage and stormwater drainage prices for residential customers (\$2008/09)**

		2008/09	2009/10	2010/11	2011/12	2012/13	Change 2008/09 to 2012/13
Water	Service pa	97.31	67.31	67.31	67.31	67.31	
	% increase		-30.8%	0.0%	0.0%	0.0%	-30.8%
	Usage(\$/kL)	1.67	1.71	1.76	1.82	1.89	
	% increase		2.5%	3.0%	3.5%	3.5%	13.3%
Sewerage	Service pa	412.67	362.67	362.67	362.67	362.67	
	% increase		-12.1%	0.0%	0.0%	0.0%	-12.1%
Stormwater drainage	Service pa		80.00	80.00	80.00	80.00	
	% increase		n/a	0.0%	0.0%	0.0%	n/a

**Note:** Assumes a 20mm water meter. Non-residential customers also pay a sewerage usage charge. Prices exclude charges related to Wyong Council's contribution to the Climate Change Fund.

**Source:** Wyong Council's submission to the 2009/10 to 2012/13 IPART review of charges for water, sewerage and drainage services.

The implications of Wyong Council's pricing proposals for residential customers with various levels of water consumption are shown in Table 2.6.

**Table 2.6 Wyong Shire Council: Impact of Council's proposed prices on combined annual water, sewerage and stormwater drainage bills for residential customers (\$2008/09)**

<b>Water Consumption</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
100 kL pa	676.78	680.90	685.60	691.97	699.00
200 kL pa	843.58	851.83	861.22	873.97	888.02
300 kL pa	1,010.38	1,022.75	1,036.84	1,055.96	1,077.04
400 kL pa	1,177.18	1,193.67	1,212.46	1,237.96	1,266.06
750 kL pa	1,760.98	1,791.91	1,827.14	1,874.94	1,927.62

**Note:** Assumes 200kL per year usage for a residential customer. Bills exclude charges related to Wyong Council's contribution to the Climate Change Fund.

**Source:** IPART Modelling of Wyong Council's submission to the 2009/10 to 2012/13 IPART review of charges for water, sewerage and drainage services.

## 3 IPART's approach to setting prices

As part of its review, IPART considered and made draft decisions on several key components of the approach it uses to set prices for the Councils' water, sewerage and stormwater drainage services. The components include:

- ▼ the length of the determination period
- ▼ the approach for calculating each council's notional revenue requirement
- ▼ the approach for converting the notional revenue requirement into prices
- ▼ the approach for considering the Councils' service standards and monitoring their performance in delivering on capital projects.

The section below provides an overview of IPART's draft decisions on these components. The following sections discuss each draft decision in more detail.

### 3.1 Overview of draft decisions on approach to setting prices

For both Gosford Council and Wyong Council, IPART's draft decision is to adopt a four-year determination period. This means it will set prices for the four years from 1 July 2009 to 30 June 2013.

In relation to calculating the Councils' notional revenue requirements, IPART used the building block approach, as it has done in previous determinations. The notional revenue requirement represents IPART's view of the full, efficient cost of providing the regulated services for each year of the determination period.

Having calculated each Council's notional revenue requirement, or maximum revenue it is prepared to allow, IPART considered a range of other factors that include the size and rate at which prices are likely to increase, the capacity of customers to pay increased prices and the timeframe that might be given to allow people to adapt to higher price levels.

IPART then determined price structures and price levels for the various services which, when applied to each Council's forecast metered water sales and customer numbers, yield a target revenue requirement for each year. IPART made a draft decision to use a glide path approach in setting prices, so that price increases occur gradually over the determination period, and in the final year of this period the target revenue requirement is the same as the notional revenue requirement.

In relation to service standards, IPART's draft decision is to continue to monitor the Councils' performance in delivering on their proposed capital programs over the determination period by requiring them to report on a range of output measures.

### 3.2 Length of the determination period

Draft decision

- 1 IPART's draft decision is to adopt a four year determination period (from 1 July 2009 to 30 June 2013).

IPART considered a range of factors in deciding on the length of the determination period. The advantages of a longer determination period include stronger incentives for the Councils to increase their economic efficiency, greater stability and predictability (which may lower the Councils' business risk and assist investment decision-making) and lower regulatory costs.

One of the main disadvantages is the increased risk associated with inaccuracies in the data used to make the determination. For example, if the Councils can reliably forecast their operating and capital expenditure profiles for only two years, a short determination period may be more appropriate. Other disadvantages include possible delays in customers benefiting from efficiency gains (because prices are not set to account for these gains until the next determination) and the risk that changes in the industry will affect the appropriateness of the determination.

IPART concluded that a four year determination period (1 July 2009 to 30 June 2013) is appropriate for both Gosford and Wyong Council, and provides the best balance between the factors considered.

### 3.3 Approach for determining the notional revenue requirement

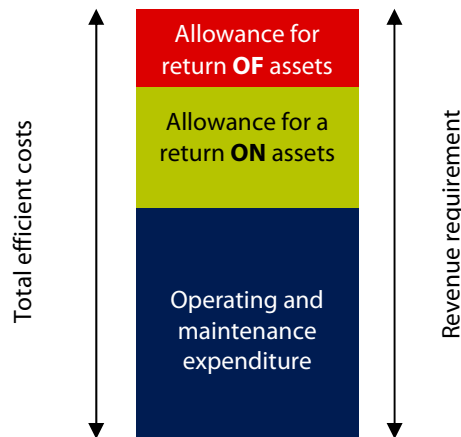
As for previous determinations, IPART used the building block approach to calculate the notional revenue requirement for each council. The building block approach ensures that the full, efficient costs of providing the regulated services are measured and monitored in a rigorous and transparent way. It is also consistent with the approach IPART uses in regulating other water businesses and industries in NSW.

To apply the building block approach, IPART has made draft decisions on:

- ▼ The revenue required for operating expenditure over the determination period, including the forecast efficient operating and maintenance costs plus an allowance for working capital.
- ▼ The revenue required for capital investment over the determination period. This comprises two building blocks:
  - an allowance for a return on the Council's water, sewerage and stormwater drainage assets
  - an allowance for a return of assets (depreciation).

The sum of these amounts represents IPART's view of the Council's total efficient costs over the determination period, or its notional revenue requirement (Figure 3.1).

**Figure 3.1 Building block approach**



As Chapter 2 noted, the scope of this review excludes recycled water services. Therefore in calculating each Council's notional revenue requirement, IPART excluded all costs and revenues associated with recycled water schemes.

### 3.4 Approach for converting the notional revenue requirement into prices

#### Draft decision

- 2 IPART's draft decision is to use a glide path approach in setting prices, so that prices increase towards full cost-recovery levels over the determination period, and reach these levels (ie, generate the notional revenue requirement) in the final year of the period.

To convert the notional revenue requirements into prices for each council's individual services, IPART's draft decision is to use a glide path approach. Under this approach, prices increase gradually towards levels that are sufficient to generate the notional revenue requirement (or recover the full efficient costs) over the determination period, and reach these levels in the final year of the period. Implementing this approach involved several steps. First, IPART considered each council's forecast metered water sales and customer numbers. Next, it considered the councils' proposed price structure and price levels, and their implications for economic efficiency, impacts on customers and the Council's financial viability. Based on these considerations, it established each council's 'target revenue'. Finally, IPART set the glide path, which involved deciding how much prices will increase each year to generate the notional revenue requirement in the final year of the determination.

### 3.4.1 Forecast metered water sales and customer numbers

As part of their submissions, each council forecast its metered water sales and customer numbers over the determination period. These forecasts are key inputs to setting prices. Forecasts of water sales are important in determining the variable water usage charge as the revenue this charge generates depends on how much water customers use. Forecasts of customer numbers are important in determining fixed service charges, as the revenue these charges generate depends on how many customers pay the charges.

IPART reviewed each council's forecasts to ensure they are reasonable. This is important, as unreasonable forecasts increase the risk that the prices set will lead to the Councils significantly over-recovering or under-recovering the required revenue. (IPART's review and decisions on forecast metered water sales and customer numbers are discussed in Chapter 10.)

### 3.4.2 Proposed price structure, price levels and target revenue

In deciding on price structure and price levels, IPART considered each council's proposed prices and the matters set out in section 15 of the IPART Act, including the impacts of prices on customers, the Councils' financial viability and economic efficiency.<sup>28</sup> IPART is required to ensure that the prices it sets balance these competing interests. In some cases – including this determination – this means that the prices will not generate IPART's determined notional revenue requirement in some or all years of the determination period. Therefore, IPART determined each council's 'target revenue', which reflects its view of the amount of revenue each council can generate from the regulated services without having a significant, adverse impact on any of these interests.

In relation to price structure, IPART largely adopted the price structure proposed by each council. This price structure includes a combination of fixed service charges and a variable water usage charge, and has the following key features:

- ▼ a uniform or 'postage stamp' price<sup>29</sup> for water and sewerage services within each Council's area of operations
- ▼ a variable water usage charge that is designed to encourage efficient water consumption and is set with reference to the long run marginal cost (LRMC) of water supply<sup>30</sup>
- ▼ a fixed water service charge that is calculated as the residual of the revenue requirement not recovered through usage charges

<sup>28</sup> The section 15 requirements are listed in full in Appendix A.

<sup>29</sup> A uniform or postage stamp price means that the price is the same for all customers within a particular customer class, regardless of their location within the Council's area of operations (and despite the fact that the costs of providing the service may vary depending on this location).

<sup>30</sup> The LRMC represents the incremental cost of measures to bring supply and demand into balance over the longer term.

- ▼ fixed sewerage and stormwater drainage charges for residential customers that recover most of the costs associated with sewerage and stormwater drainage services<sup>31</sup>
- ▼ a variable sewerage usage charge for non-residential customers, which is calculated on volume discharged as a proportion of the metered water supplied
- ▼ trade waste charges which are charged on the basis on the chemicals discharged into the sewerage system.

In relation to price levels, IPART considered the impact of price increases of various magnitudes in each year of the determination period, and assessed the effect of these increases on the bills of customers with varying consumption levels.

To consider the impact on the Councils' financial viability, IPART examined each Council's forecast credit rating, taking into account its existing cash/debt levels and its ability to pay dividends. IPART also considered each Council's 'benchmark financial structure' and had regard to the Weighted Average Cost of Capital (WACC) parameter assumptions it made in determining the return on assets and return of asset cost blocks.<sup>32</sup>

In considering economic efficiency, IPART took account of the extent to which the prices send appropriate signals to customers about the need to conserve water and reflect the costs of the services provided, and the consistency of the variable usage charge with the Long Run Marginal Cost (LRMC) of water. As much as possible, the usage charge each customer class or group pays should reflect the marginal cost that their consumption imposes. In addition, the total price of water and sewerage services should reflect the cost to the community of the services provided. These services are capital intensive and the costs of the capital employed include the return that these resources could otherwise earn. Therefore it is important that prices are sufficient to allow the Councils to earn a return on capital comparable to that earned by other water businesses. Signalling the true costs of water and related services encourages consumers to use these services wisely.

### 3.4.3 Glide path

Having decided on the notional revenue requirement and the target revenue, IPART considered how prices would increase in each year of the determination period. In the 2006 Determination, IPART adopted a 'P<sub>0</sub> approach', where the increase permitted in the first year of the determination period was higher than in subsequent years. A single 'X-factor'<sup>33</sup> was set for subsequent years to ensure that prices changed smoothly over the remainder of the determination period in real terms, and that the target revenue in the final year of the determination period equalled the

<sup>31</sup> It is not possible to establish a variable usage charge for either of these services for residential customers, as they are not currently metered.

<sup>32</sup> The WACC is a weighted average of the cost of debt and equity. See Chapters 6 and 9 and Appendix C.

<sup>33</sup> This is a constant percentage increase applied to the total prices in each year.

notional revenue requirement for that year. This approach is known as the 'glide path' approach.

In its submission, Gosford Council proposed a glide path that would allow it to achieve full cost recovery within 8 years. This proposal was designed to assist customers in adjusting to the higher bills.

Wyong Council proposed increasing all charges by the change in the CPI, with the exception of water usage charges. It proposed increasing water usage charges by approximately 3 per cent per annum in real terms. Wyong Council's proposal yielded an effective rate of return on assets of approximately 2 per cent (real pre tax).

For the draft determination, IPART decided to use the same approach as it did for the 2006 Determination. That is, it set prices to achieve the notional revenue requirement in the final year of the determination, with a higher increase in the first year of the determination than in subsequent years.

In coming to this decision, IPART considered the potential financial implications on the Councils, and also the impact on customers. It has also taken into account the revenue required for the Councils to fund their operating and capital expenditure needs, which are particularly high in the first 2 years of the determination period.

### **3.5 Approach for considering service standards and monitoring performance in delivering on capital projects**

Draft decision

- 3 IPART's decision for the final determination is to require the Councils to report on progress against the output measures described in Appendix B.

When it sets prices, IPART assumes that the existing standards of service required of the Councils will at least be maintained. Other regulatory instruments, such as the discharge licences issued by DECC, assist in maintaining, or encouraging improvements in, service standards by prescribing minimum standards that must be met.

Performance monitoring of Local Water Utilities (LWUs) is undertaken annually by the Department of Water and Energy (DWE), with the results reported in the NSW Water Supply and Sewerage Performance Monitoring Report.<sup>34</sup> DWE also provides Best Practice Guidelines for the management of water supply and sewerage, which requires utilities to provide annual performance data and allows utilities to be benchmarked against other similar utilities.<sup>35</sup> In addition, the National Water

<sup>34</sup> NSW Department of Water and Energy, *2006/07 NSW Water Supply and Sewerage Performance Monitoring Report*, December 2008.

<sup>35</sup> NSW Department of Water and Energy, *Best-Practice Management of water Supply and Sewerage Guidelines*, August 2007.



Commission (NWC) has developed a set of performance indicators to be applied across water utilities throughout Australia.<sup>36</sup>

In determining the Councils' prices, IPART considered the relationship between actual and proposed expenditure to meet quality outcomes. At the 2006 Determination, IPART published a list of output measures against which the Councils were required to report. IPART reviewed their reported information as part of its assessment of the Councils' progress (see Box 3.1).

IPART considers that the requirement for the Councils to report against output measures should be retained, as it provides a useful starting point for assessing their prudent expenditure and reporting on any deviation from the targets established. IPART revised the existing output measures based on the advice of its consultants, Halcrow, to better reflect the current operating environments of the Councils. The draft list of output measures (along with targets) for the 2009 determination period is provided in Appendix B. IPART is seeking comments on these output measures and targets from stakeholders.

The Councils have provided IPART with a list of the capital projects to be undertaken over the determination period. This list is also provided in Appendix B. IPART expects the Councils to monitor expenditure on these projects and provide annual progress reports. In addition, the Councils should provide a reconciliation of their expenditure and outcomes against the IPART capital and operating expenditure allowances.

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<sup>36</sup> Water Services Association of Australia and National Water Commission, *National Performance Report 2006-2007 for urban water utilities*, 2008.

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**Box 3.1 The Councils' performance against output measures over the 2006 Determination period**

Under the 2006 Determination, the Authority was required to report against output measures for water supply capital projects. In general, these measures were defined as the completion of particular schemes. Seven schemes were scheduled for completion over the determination period. Of these:

- ▼ Three were completed and are now in operation: the Lower Wyong Transfer System Upgrade, the Groundwater Contingency Scheme, and the Hunter Transfer Contingency Scheme).
- ▼ Tendering for the Mardi Dam Transfer System<sup>a</sup> is completed and construction is expected to be completed in late 2009.
- ▼ The completion of Mooney Mooney Transfer System Upgrade has been delayed due to the risks associated with taking Mooney Mooney Dam offline for several months. The completion of the Mardi Dam Raising has been deferred while more cost-effective solutions are being investigated. However, ancillary works relating to safety and operating issues have progressed. The future of both these projects will be reassessed on completion of the Mardi to Mangrove Link.
- ▼ There has been substantial progress on the Mardi to Mangrove Transfer System<sup>b</sup>. Investigations and concept design have been completed, but completion of the Mardi High Lift Pumping Station and Associated Works has been delayed due to changes in scope to achieve cost savings.

Both councils were required to report on progress against targets for specific sewerage projects. Gosford Council reported that it did not achieve its target on any of the named projects because it diverted resources to water supply projects. However, it did complete a strategic process review of its planned upgrades of the Kincumber and Woy Woy sewerage treatment plants (STPs), and has prioritised the projects for sewerage treatment plant improvements. It also completed the design for the Gosford CBD upgrade, but this work has been superseded by the Local Environment Plan. Therefore, design and modelling will now be ongoing and will be staged in conjunction with construction works. Gosford Council also reported that the feasibility and design for the North Avoca sewerage scheme has taken longer than expected. Staged construction work is expected to be carried out over a number of years.

Wyong Council reported that works on pumping stations and rising mains at Killarney Vale<sup>c</sup> are complete. However, pumping stations at North Entrance and Tuggerah<sup>d</sup> are delayed with preconstruction activities almost complete for North Entrance and an estimated completion date of the end of 2009 for Tuggerah. Wyong Council replaced two out of four aerators at Wyong South sewage treatment works. The replacement of the remaining two will depend upon a review of current tank loadings. Roadworks at the same sewage treatment works have been reprogrammed with the next upgrade in 2010/11.

<sup>a</sup> This is the construction of a new outlet tower at Mardi Dam.

<sup>b</sup> This project enables the transfer of water from Mardi Dam to Mangrove Creek Dam.

<sup>c</sup> Referred to as B3 and B4 at the 2006 Determination.

<sup>d</sup> Referred to as B11 and B13 (North Entrance) and WS9 (Tuggerah) at the 2006 Determination.

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## 4 | Gosford Council: overview of revenue requirement

As Chapter 3 discussed, IPART used the building block approach to determine Gosford Council's notional revenue requirement over the determination period. To apply the building block approach, IPART made draft decisions on:

- ▼ The revenue required for operating expenditure over the determination period, including the forecast efficient operating and maintenance costs plus an allowance for working capital.
- ▼ The revenue required for capital investment over the determination period, including:
  - an allowance for a return on the Council's water, sewerage and stormwater drainage assets
  - an allowance for a return of assets (regulatory depreciation).

The sum of these amounts represents IPART's view of the Council's total efficient costs over the determination period, or its notional revenue requirement.

Next, as Chapter 3 also discussed, IPART considered the price levels required to generate the notional revenue requirement and the implications of these price levels for customers, the Council's financial viability, and economic efficiency. It then adjusted the notional revenue requirement downwards, to achieve an acceptable balance between these competing interests. The resulting revenue is known as the target revenue.

Finally, IPART estimated the revenue the Council will earn over the determination period from other fees and charges (eg, trade waste charges and ancillary charges). It subtracted this revenue from the target revenue, and then set prices to generate the resulting amount.

The sections below set out Gosford Council's proposed notional revenue requirement, IPART's draft decisions on the Council's notional revenue requirement and target revenue, and its draft decision on the revenue from other fees and charges to be subtracted from the target revenue before setting prices.

#### 4.1 Gosford Council's proposed revenue requirement

In its submission to the review, Gosford Council identified a need to increase its revenue by approximately 9 per cent in real terms over the determination period, from \$79.7 million in 2009/10 to \$86.7 million in 2012/13 (\$2008/09).<sup>37</sup> However, to reduce any price fluctuations for customers, Gosford Council proposed smoothing the revenue requirement to recover \$84 million (\$2008/09) in each year of the determination.

Gosford Council's proposed revenue requirement is summarised in Table 4.1 below.

**Table 4.1 Gosford City Council: Proposed revenue requirement (\$million 2008/09)**

	2009/10	2010/11	2011/12	2012/13
Operating expenditure	42.4	42.6	41.9	42.1
Allowance for working capital	0.3	0.4	0.5	0.5
Allowance for regulatory depreciation	6.5	6.8	7.2	7.5
Allowance for return on assets	30.5	33.2	34.7	36.3
Notional revenue requirement	79.7	83.0	84.3	86.4
Smoothed revenue requirement	84.0	84.0	84.0	84.0

**Note:** Column totals may not sum due to rounding.

**Source:** Gosford Council, *Amendment to Council's written submission*, 23 October 2008 plus IPART's calculations.

#### 4.2 IPART's draft decisions on the notional revenue requirement and target revenue

IPART's application of the building block approach resulted in a lower notional revenue requirement than proposed by Gosford Council, due to differences in each of the components. IPART's calculation of the revenue required for operating expenditure is lower, as a result of correcting errors in Gosford Council's submission and adopting more rigorous efficiency savings targets. IPART's allowances for a return on assets and regulatory depreciation are also lower, due to differences in the methodologies used to calculate the value of the RAB.

IPART's draft decisions on the notional revenue requirement and target revenue are shown in Table 4.2.

<sup>37</sup> Amendment (correction) received 23 October 2008 IPART re-calculation.

**Table 4.2 Gosford City Council: IPART's draft decisions on the notional revenue requirement and target revenue (\$million 2008/09)**

	2009/10	2010/11	2011/12	2012/13
<b>Notional revenue requirement</b>				
Operating expenditure	40.3	41.1	40.5	40.3
Allowance for working capital	(0.1)	0.2	0.3	0.3
Allowance for regulatory depreciation	5.4	5.8	6.0	6.2
Allowance for return on assets	29.5	31.8	32.6	33.5
<b>Total</b>	<b>75.1</b>	<b>78.9</b>	<b>79.4</b>	<b>80.2</b>
<b>Target revenue</b>				
Operating expenditure	40.3	41.1	40.5	40.3
Allowance for working capital	(0.1)	0.2	0.2	0.3
Allowance for regulatory depreciation	5.4	5.8	6.0	6.2
Allowance for return on assets	19.5	22.8	28.0	33.5
<b>Total</b>	<b>65.2</b>	<b>69.8</b>	<b>74.7</b>	<b>80.2</b>
Return on assets (real pre-tax)	4.6%	5.0%	6.0%	7.0%

**Note:** Column totals may not sum due to rounding.

### 4.3 IPART's draft decision on revenue from other fees and charges

To calculate the revenue to be recovered through water, sewerage and stormwater drainage services, IPART subtracted (from the overall target revenue specified in Table 4.2 above) the revenue Gosford Council is forecast to earn from 'other fees and charges', such as trade waste charges and charges for ancillary and miscellaneous services. IPART also adjusted the income from 'other fees and charges' for any changes in pricing assumptions or general price increases.

IPART's draft decision on the revenue from other fees and charges to be subtracted from Gosford Council's target revenue prior for the purpose of setting prices is shown on Table 4.3.

**Table 4.3 Gosford City Council: IPART's draft decision on revenue from other fees and charges to be subtracted from target revenue (\$million 2008/09)**

	2009/10	2010/11	2011/12	2012/13
Revenue from trade waste charges	0.3	0.4	0.4	0.4
Revenue from ancillary charges	1.8	1.8	1.8	1.8
<b>Total</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>

**Note:** Column totals may not sum due to rounding.

Chapters 5 and 6 explain how IPART made its draft decisions on the revenue Gosford Council requires for operating expenditure, and for capital investment (including the allowances for a return on assets and regulatory depreciation). Please note that the allowance for working capital is not discussed further in this report, as this relatively small allowance does not have a significant impact on prices.

## 5 Gosford Council: revenue required for operating expenditure

To determine how much revenue Gosford Council will require for operating expenditure over the determination period, IPART assessed the efficient level of operating and maintenance costs the Council will incur in providing water, sewerage and stormwater drainage services over this period.

As part of this assessment, IPART engaged Halcrow, an independent engineering consultant, to review Gosford Council's forecast operating expenditure and recommend the efficient level for this expenditure. IPART also sought comment from other stakeholders on:

- ▼ the efficiency of the projected operating expenditure outlined in Gosford Council's submission
- ▼ whether there was scope for Gosford Council to achieve further efficiency gains over the determination period.

The section below summarises IPART's draft decision on the revenue required for operating expenditure. The following sections discuss IPART's considerations in reaching this decision, including Gosford Council's submission on its past and forecast operating expenditure, Halcrow's review and recommendations on these expenditures, stakeholders' comments, and IPART's own analysis and findings on Gosford Council's operating expenditure.

### 5.1 Summary of IPART's draft decision

Draft decision

- 4 IPART's draft decision is that the efficient level of operating expenditure Gosford Council requires to provide its water, sewerage and stormwater drainage services over the period 2009/10 to 2012/13 is as shown in Table 5.1.

**Table 5.1 Gosford City Council: Draft decision on revenue required for operating expenditure (\$million 2008/09)**

	2009/10	2010/11	2011/12	2012/13	Total
Gosford Council proposed total	42.4	42.6	41.9	42.1	169.0
Halcrow recommended total	40.3	40.6	40.1	39.9	160.8
<b>IPART draft decision</b>					
Corporate	8.3	8.3	8.4	8.4	33.4
Water	13.1	13.6	13.2	13.0	52.9
Sewerage	14.7	14.6	14.5	14.5	58.3
Stormwater drainage	4.2	4.1	4.0	4.0	16.3
<b>IPART total</b>	<b>40.3</b>	<b>40.6</b>	<b>40.1</b>	<b>39.9</b>	<b>160.8</b>

**Note:** Column totals may not sum due to rounding. Total operating expenditure includes the efficiency allowance.

**Source:** Gosford Council submissions and Halcrow Pacific Pty Ltd, Review of Capital and Operating Expenditure for Gosford City Council Final Report, November 2008.

IPART's draft decision is consistent with Halcrow's recommendations on Gosford Council's forecast efficient operating expenditure over the determination period. These recommendations reflected Halcrow's view that Gosford Council had made several errors in preparing its forecast operating expenditure. These included errors related to the allocation of corporate overheads, the incorrect inclusion of tax equivalent dividends, the incorrect allocation of corporate governance costs, the incorrect inclusion of costs for activities unrelated to the water business, and the double allocation of accommodation charges.

## 5.2 Gosford City Council's submission

Gosford Council's submission outlined its past operating expenditure over the 2006 determination period and its forecast operating expenditure for the 2009 period, and explained the drivers of this expenditure.

### 5.2.1 Past operating expenditure

Gosford Council's submission indicated that its operating expenditure exceeded the amount allowed for in the 2006 Determination in each year of the 2006 determination period. Most of this overspend occurred in the water business. Gosford Council attributed the overspend to contributions to the Climate Change Fund<sup>38</sup>, additional costs associated with the drought (including demand management schemes), water purchases from Hunter Water and regulatory requirements associated with fluoridating the water supply.

<sup>38</sup> Formerly the Water Savings Fund. The value of these contributions was unknown at the 2006 Determination. Therefore the expenditure was permitted to be charged to customers as a cost pass through.



There was also a slight overspend in the sewerage business in 2007/08 and 2008/09. Gosford Council noted that unforeseen costs associated with the storms in June 2007 had contributed to this overspend. These costs included increased labour costs (due to the need to clean up sewage overflows) and costs associated with hiring a tanker to pump out sewerage pumping stations (due to the loss of power supplies).

In addition, there was a small overspend in the stormwater drainage business in each year of the determination period. The Council noted that primary reason was an increase in repairs and maintenance expenditure, including increased tipping costs. This was due to the higher number of water sensitive urban design schemes in its area of operations. These schemes are designed to trap litter and sediment and hence have more involved maintenance programs.

Table 5.2 sets out the operating expenditure Gosford Council proposed during the 2006 price review, the operating expenditure IPART allowed for in making the 2006 Determination, and the Council's actual operating expenditure over the 2006 determination period.

**Table 5.2 Gosford City Council: Proposed, allowed and actual operating expenditure 2006/07 to 2008/09 (\$million 2008/09)**

	2006/07	2007/08	2008/09
<b>Gosford Council proposed</b>			
Corporate	10.9	10.7	10.4
Water	14.5	15.0	15.0
Sewerage	16.3	16.3	16.3
Stormwater drainage	4.3	4.2	4.3
<b>Total</b>	<b>45.9</b>	<b>46.3</b>	<b>46.0</b>
<b>IPART 2006 Determination</b>			
Corporate	9.8	9.4	9.1
Water	14.1	13.7	12.5
Sewerage	14.9	14.7	14.6
Stormwater drainage	3.6	3.6	3.5
<b>Total</b>	<b>42.4</b>	<b>41.4</b>	<b>39.7</b>
<b>Gosford Council actual</b>			
Corporate	9.9	11.1	9.0
Water	20.3	16.2	14.2
Sewerage	13.3	13.2	15.0
Stormwater drainage	4.1	4.1	4.0
<b>Total</b>	<b>47.6</b>	<b>44.5</b>	<b>42.3</b>

**Source:** 2006 Determination (inflated to \$2008/09) and Gosford AIR (IPART inflated to \$2008/09).

### 5.2.2 Forecast operating expenditure

Gosford Council's submission to the 2009 price review included its forecast operating expenditure for the four years starting in 2009/10, as shown in Table 5.3.

**Table 5.3 Gosford City Council: Forecast operating expenditure for 2009/10 to 2012/13 (\$ million 2008/09)**

	2009/10	2010/11	2011/12	2012/13
Water	18.4	18.8	18.4	18.3
Sewerage	18.2	18	17.9	18.2
Stormwater drainage	5.8	5.8	5.6	5.6
<b>Total</b>	<b>42.4</b>	<b>42.6</b>	<b>41.9</b>	<b>42.1</b>

**Note:** Column totals may not sum due to rounding.

**Source:** Gosford City Council Pricing Proposal – Addendum (23/10/08).

Gosford Council incurs water operating expenditure for Joint Water Supply (JWS) assets and for its own reticulation assets. Gosford Council estimates the proportions of total water operating expenditure devoted to these functions to be 36 per cent and 64 per cent respectively.

Gosford Council's forecast operating expenditure incorporates efficiency savings between 2009/10 and 2011/12. As a result, its forecast annual operating expenditure at the end of the determination period is lower than at the beginning<sup>39</sup>. However, the forecast operating expenditure in 2009/10 is 6.9 per cent higher (in real terms) than the operating expenditure IPART allowed for in 2008/09 as part of the 2006 Determination. Gosford Council attributes this increase in its operating expenditure to several factors:

- ▼ In the water business, it faces increased costs associated with demand management programs (eg, for paying rebates and enforcing water restrictions) and additional treatment costs associated with Water Quality 2010<sup>40</sup> capital improvements and fluoridation of the system.
- ▼ In the sewerage business, it faces increased costs due to the operation of the additional sewerage scheme at Mooney Mooney Cheero Point and the continuation of the enhanced sewerage main cleaning program.
- ▼ In the stormwater drainage business, it contends that the revenue allowed for in the 2006 Determination was not sufficient for operating its stormwater drainage services, and that its future expenditure levels will be in line with past actual expenditures (rather than the levels allowed for in the 2006 Determination).

<sup>39</sup> As well as Gosford Council forecasting increases in customer numbers over the same period.

<sup>40</sup> Gosford Council's drinking water quality management program to address problems with water quality.

Gosford Council also identified a number of areas where it has not been able to accurately forecast operating costs over the next four years. These include costs associated with:

- ▼ The Federal Government's Carbon Pollution Reduction Scheme. The Council did not include any allowance for the costs associated with this scheme.
- ▼ Variations in energy requirements due to weather and climate conditions.
- ▼ A possible recurrence of critical drought conditions.
- ▼ Water purchases from Hunter Water. However, Gosford Council has factored in \$250,000 per annum based on an understanding that Hunter Water is expecting to sell a total of \$500,000 of water per annum to the JWS<sup>41</sup>.
- ▼ The NSW Government's Climate Change Fund. DECC<sup>42</sup> has indicated that Gosford Council's contributions are to continue until 2011/12 although the quantum has not been decided.

### 5.2.3 Comparison of past and forecast operating expenditure

Using the information submitted by Gosford Council, Table 5.4 shows the Council's actual operating expenditure over the 2006 determination period and its forecast operating expenditure for the 2009 period. The table also shows how the actual expenditure varied from that allowed for in the 2006 Determination.

**Table 5.4 Gosford City Council: Actual and forecast operating expenditure, 2006/07 to 2012/13 (\$million 2008/09)**

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Water	24.9	21.5	18.3	18.4	18.8	18.4	18.3
Sewerage	18.1	18.3	18.4	18.2	18.0	17.9	18.2
Stormwater drainage	4.6	4.7	5.7	5.8	5.8	5.6	5.6
Total	47.6	44.5	42.3	42.4	42.6	41.9	42.1
<b>% variation on 2006 Det.</b>	<b>12.1%</b>	<b>7.7%</b>	<b>6.6%</b>				

**Note:** Column totals may not sum due to rounding.

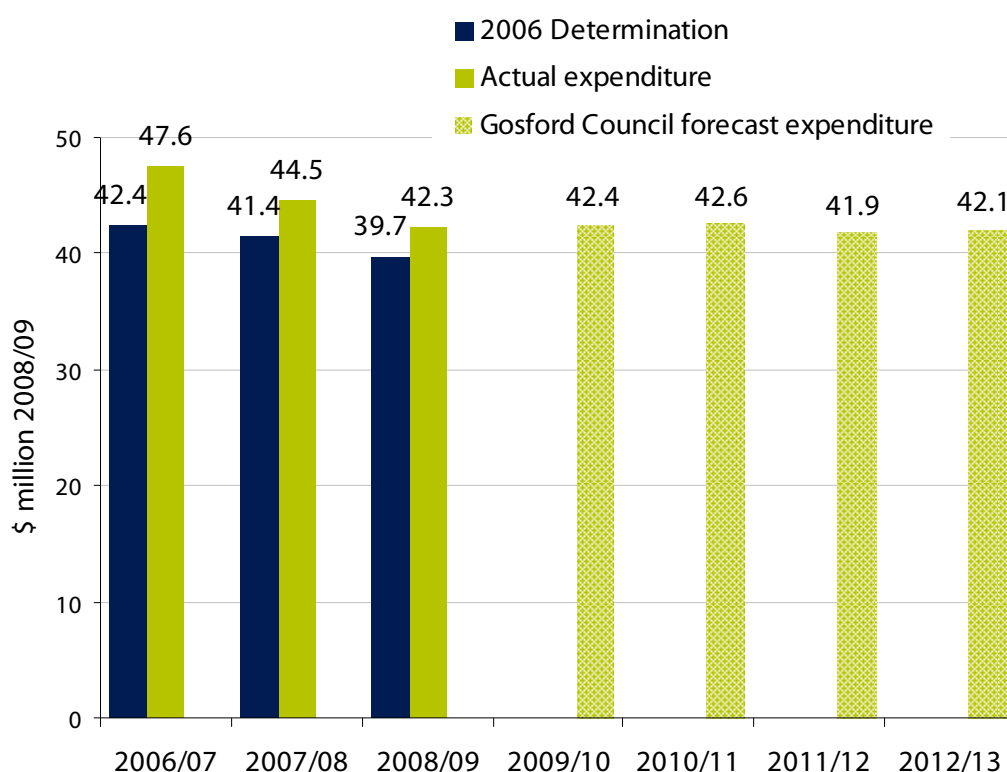
**Source:** 2006 Determination (inflated to \$2008/09); Gosford AIR (IPART inflated to \$2008/09) for 2006/07-2008/09; and Gosford City Council Pricing Proposal – Addendum (23/10/08) for 2009/10 onwards.

<sup>41</sup> Gosford Council has stated that any risk for differences between this assumption and the actual costs incurred in purchasing water from Hunter Water will be absorbed within the rate of return applied to fixed assets. See Public Hearing, *Metropolitan Water Price Review for Gosford and Wyong Councils*, 14 November 2008, p 11. The transcript is available on IPART's website: [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).

<sup>42</sup> Carolyn Davies, The NSW Department of Environment and Climate Change, pers. comm. 3 December 2008.

The table indicates that the Council's actual expenditure over the 2006 period was higher than allowed for in the 2006 Determination. However, its forecast annual operating expenditure for the 2009 period is lower than its actual expenditure in 2006/07 and 2007/08, and remains at around the same level as in 2008/09 over the whole period. This is further illustrated in Figure 5.1.

**Figure 5.1 Gosford City Council: Actual, determined and forecast operating expenditure, 2006/07 to 2012/13 (\$million 2008/09)**



**Data source:** 2006 Determination (inflated to \$2008/09); Gosford Council AIR (IPART inflated to \$2008/09) for 2006/07-2008/09 and Gosford City Council Pricing Proposal – Addendum (23/10/08) for 2009/10 onwards.

### 5.3 Halcrow's review

IPART engaged Halcrow to review Gosford Council's past operating expenditure over the 2006 determination period, and its forecast operating expenditure for 2009 period. It asked Halcrow to recommend the efficient forecast operating expenditure required to provide the Council's water, sewerage and stormwater drainage services from 2009/10 to 2012/13.

### 5.3.1 Halcrow's findings on past operating expenditure

In general, Halcrow noted that Gosford Council's submission demonstrated a breakdown or absence in internal quality controls over budgeting and reporting processes that needs to be addressed.<sup>43</sup>

Halcrow also found that, since the 2006 price review, Gosford Council has changed its process for calculating and allocating corporate overheads. It found that the method now used was generally reasonable and transparent. However, it questioned a number of items included within the total corporate overhead figure and did not agree with the revised proportions allocated to the water, sewerage and stormwater drainage businesses.

Halcrow confirmed that Gosford Council's operating expenditure over the 2006 determination period had exceeded the amount allowed for in IPART's determination:

- ▼ In the water business, Halcrow found that Gosford Council overspent in 2008/09. It supported the Council's view that the primary contributors to the overspend were costs incurred in fluoridating the water supply, payments to the Water Savings Fund<sup>44</sup> and drought management activities.
- ▼ In the sewerage business, it found that the overspend was caused by the reallocation of resources due to the drought and elevated numbers of sewer chokes.
- ▼ In the stormwater business, Halcrow supported the Council's view that the primary reason for the overspend was an increase in repairs and maintenance expenditure due to a higher number of water sensitive urban design schemes.

### 5.3.2 Halcrow's findings on forecast efficient operating expenditure

Based on its review of Gosford Council's past and forecast operating expenditure, Halcrow made recommendations on the Council's forecast efficient operating expenditure for the 2009 determination period. In doing so, Halcrow noted that Gosford Council's practice of setting its annual budgets by rolling forward the previous year's spend and making adjustments for material changes to the operating environment means there is little incentive for it to identify potential savings in the operating budget.

Halcrow's recommended forecast operating expenditure and Gosford Council's proposed expenditure is shown in Table 5.5 below. Halcrow's recommended expenditure is around 5 per cent less than the Council's forecast expenditure, and incorporates higher efficiency savings targets than the Council proposed.

<sup>43</sup> Halcrow, *Review of Capital and Operating Expenditure Final Report*, 28 November 2008, p 7.

<sup>44</sup> Now the Climate Change Fund.

**Table 5.5 Gosford City Council: Halcrow's recommended and the Council's proposed operating expenditure for 2009/10 to 2012/13 (\$million 2008/09)**

	2009/10	2010/11	2011/12	2012/13
Gosford Council proposed	42.4	42.6	41.9	42.1
Halcrow recommended	40.3	40.6	40.1	39.9
Difference (%) <sup>a</sup>	-5.0%	-4.6%	-4.4%	-5.3%

<sup>a</sup> Percentage difference between Halcrow's recommended operating expenditure and Gosford Council's proposed expenditure.

**Source:** Gosford Council submissions and Halcrow Pacific Pty Ltd, *Review of Capital and Operating Expenditure for Gosford City Council Final Report*, November 2008.

In the 2006 Determination, IPART factored efficiency savings of 1.2 per cent per annum into Gosford Council's determined operating expenditure. The Council indicated in its submission that it had not set any internal efficiency targets for its operating expenditure budget over the 2006 determination period, and that any efficiency gains that it made would have been consumed by additional expenditure to address the impacts of the drought.

For the 2009 period, Gosford Council proposed efficiency savings for the water and sewerage businesses only. The combined proposed savings were 0.5 per cent in 2009/10, a further 0.5 per cent in 2010/11, and a further 0.25 per cent in 2011/12, with no further savings in 2012/13. Gosford Council also indicated that it intends to undertake a review during the current financial year to get a better understanding of where it has the potential to make efficiency savings.

After reviewing all the information provided by Gosford Council, Halcrow concluded that the Council should have been able to make efficiency savings in its operations over and above any additional spending related to the drought during the 2006 determination period. Halcrow also concluded that Gosford Council should be able to achieve greater efficiency savings in its operating expenditure than the Council has proposed for the 2009 determination period.

Halcrow found that the Council's proposed saving of 1.25 per cent of operating expenditure in 2011/12 is in line with industry trends. But it also found there is greater scope for the Council to achieve greater efficiency savings than it has targeted in the other years of the determination period. At the same time, it acknowledged that lower efficiency targets are more realistic in the first two years, to allow Gosford Council the opportunity to develop and implement efficiency measures.

In line with these findings, Halcrow recommended that Gosford Council's forecast operating expenditure be adjusted to incorporate efficiency savings of 0.75 per cent in 2009/10 (instead of 0.5 per cent as the Council proposed). In addition, Halcrow expected gains to be realised across the whole of the business, including the stormwater drainage service. Gosford Council's proposed efficiency savings and Halcrow's recommended efficiency savings are shown in Table 5.6 below.

**Table 5.6 Gosford City Council: The Council's proposed and Halcrow's recommended efficiency savings in operating expenditure**

	Efficiency %			
	2009/10	2010/11	2011/12	2012/13
Gosford Council proposed	0.50	1.00	1.25	1.25
Halcrow recommended	0.75	1.00	1.25	1.25

**Note:** Percentages are total in each year, not cumulative.

**Source:** Gosford Council submissions and Halcrow Pacific Pty Ltd, *Review of Capital and Operating Expenditure for Gosford City Council Final Report*, November 2008.

## 5.4 Stakeholders' comments

No stakeholder submissions specifically commented on Gosford Council's past or forecast levels of operating expenditure. However, several submissions made suggestions that if implemented would necessitate increases in the Council's operating expenditure. These suggestions included that the Council provide payment assistance vouchers to lower income families, water audits to customers, and no-interest loans for low-income households to purchase water efficient products. In most cases, the suggested initiatives were not costed, and there was no indication of how they could be funded.

The Public Interest Advocacy Centre argued that any carbon tax should be borne in part by Gosford Council and in part by customers.

## 5.5 IPART's analysis

For the draft determination, IPART decided to adopt Halcrow's recommendations on Gosford Council's forecast efficient operating expenditure, including its recommended efficiency savings.

IPART notes Halcrow's concerns about the Council's reporting of and accountability for budget overruns, and agrees with its view this creates uncertainty about the Council's ability to achieve efficiency savings.

IPART concurs with Halcrow's concerns about the allocation of corporate overheads and has adopted Halcrow's revised figures. It has also made a number of adjustments to Gosford Council's proposed operating expenditure allowance to eliminate errors found by Halcrow. These adjustments include the removal of items such as:

- ▼ dividend and tax equivalents (which were incorrectly charged to operating expenditure)
- ▼ corporate governance costs (which were incorrectly allocated to the regulated water business)
- ▼ costs associated with activities unrelated to the water business, and

- ▼ accommodation charges which were allocated twice.

IPART has accepted Gosford Council's estimate of \$0.25 million (real 2008/09) per year for water purchases from Hunter Water Corporation. IPART's methodology for setting the purchase price between Hunter Water Corporation and the Councils is outlined in more detail in Appendix D.

IPART concurs with Gosford Council that incorporating contributions to the Climate Change Fund within prices over the 2009 determination period introduces significant uncertainties for Gosford Council. Further, IPART notes that the quantum of the contribution is the subject of considerable scrutiny.<sup>45</sup> In light of this, IPART has decided to maintain the approach taken for the 2006 Determination and exclude any operating costs relating to payments to the Climate Change Fund and provide a methodology for the recovery of these costs when they are known.

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<sup>45</sup> By the NSW Department of Water and Energy and the Minister for Local Government.



## 6 Gosford Council: revenue required for capital investment

As Chapter 3 discussed, the revenue required for capital investment comprises two cost blocks: an allowance for a return **on** capital, and an allowance for a return **of** capital (or regulatory depreciation). Together, these allowances make up around 46 to 49 per cent of Gosford Council's total notional revenue requirement over the 2009 Determination period and so have a significant impact on prices. IPART determined a value for each of these allowances by taking three steps:

- ▼ calculating a value for the Council's Regulatory Asset Base (RAB) in each year of the determination period, taking into account a range of factors, including its findings on the level of past capital expenditure that was prudent and forecast capital expenditure that is efficient
- ▼ deciding on an appropriate rate of return for Gosford Council, and multiplying the annual value of the RAB by this rate (to give the allowance for a return on assets)
- ▼ deciding on the appropriate depreciation method and asset lives for the Council's existing and new assets, and then calculating depreciation on the RAB by dividing the RAB by the weighted average asset lives.

The section below summarises IPART's draft decisions on the allowances for a return on capital and regulatory depreciation. The following sections explain how IPART reached these decisions by discussing each of the above steps.

### 6.1 Summary of IPART's draft decisions on the allowances for a return on assets and regulatory depreciation

#### Draft decision

- 5 IPART's draft decisions are that the allowance for a return on assets for Gosford Council is as shown in Table 6.1, and the allowance for regulatory depreciation is as shown on Table 6.2.

**Table 6.1 Gosford City Council: IPART's draft decision on the allowance for a return on assets (\$million 2008/09)**

	2009/10	2010/11	2011/12	2012/13	Total
IPART draft decision (based on WACC of 7.0%)	29.5	31.8	32.6	33.5	127.4
Gosford Council proposed (based on rate of return of 6.3%)	30.5	33.2	34.7	36.3	134.7
Difference	(1.0)	(1.4)	(2.1)	(2.8)	(7.3)
Difference (%)	-3.4%	-4.1%	-6.0%	-7.7%	-5.4%

Source: Gosford Council submissions and IPART's calculations.

**Table 6.2 Gosford City Council: IPART's draft decision on the allowance for regulatory depreciation (\$million 2008/09)**

	2009/10	2010/11	2011/12	2012/13	Total
IPART draft decision	5.4	5.8	6.0	6.2	23.3
Gosford Council proposed	6.5	6.8	7.2	7.5	28.0
Difference	(1.1)	(1.0)	(1.2)	(1.3)	(4.7)
Difference (%)	-16.8%	-14.7%	-17.0%	-17.9%	-16.6%

Source: Gosford Council submissions and IPART's calculations.

As the tables above show, IPART's draft decisions on these allowances are lower than those proposed by Gosford Council (despite the fact that IPART applied a higher rate of return in calculating the allowance for a return on capital). There are several reasons for this difference. First, IPART identified that Gosford Council had incorrectly calculated the value of the RAB by not deducting Government grant contributions. In addition, Gosford Council calculated the return of and return on capital at the end of the year and applied this figure directly to revenue<sup>46</sup>. IPART has also adjusted the values of capital expenditure that are entered into the RAB each year.

## 6.2 Calculating the annual value of Gosford Council's RAB over the determination period

To determine the value for the allowance for a return on assets, IPART first calculated the value of Gosford Council's RAB in each year of the determination period. It established the methodologies for calculating the value of the RAB at the start of the determination period (the opening value of the RAB), and for rolling forward the RAB to the end of the determination period.

<sup>46</sup> IPART discounts the rate of return by 6 months to account for the fact that income is received throughout the year.

### 6.2.1 Methodologies for establishing opening value of the RAB and rolling forward the RAB

To establish the opening value of Gosford Council's RAB (ie, as at 1 June 2009), IPART:

- ▼ rolled forward the 1 July 2006 RAB to 30 June 2009 on the basis of actual prudent capital expenditure (related to both the existing system and for growth) over this period<sup>47</sup>
- ▼ deducted the actual capital contributions, from developers or government (for example, subsidies from the Commonwealth Government), from the RAB each year for the 2006/07 and 2007/08 years and estimated capital contributions for 2008/09<sup>48</sup>
- ▼ deducted regulatory depreciation as allowed for in the 2006 Determination<sup>49</sup>
- ▼ deducted actual asset disposals for 2006/07 and 2007/08 and estimated disposals for 2008/09
- ▼ indexed the annual closing regulatory asset base for actual/forecast inflation (assuming that half the capital expenditure and disposals occurred at the beginning of the year (and therefore receive a full year of indexation) while the other half occurred at the end of the period (and therefore is not indexed)).

To roll forward the RAB to the end of the 2009 determination period (ie, 30 June 2013), IPART:

- ▼ added the forecast efficient capital expenditure (related to both the existing system and growth) to the closing value of the RAB for the previous year
- ▼ deducted forecast capital contributions, from developers or government (for example, subsidies from the Commonwealth Government)<sup>50</sup>
- ▼ deducted regulatory depreciation
- ▼ deducted forecast disposals of assets
- ▼ indexed the annual closing RAB for forecast inflation.<sup>51</sup>

<sup>47</sup> Given that actual expenditure for this year is not fully known at the time of the Determination, IPART has used the estimated expenditure for the 2008/09 year. This estimate has been assessed by IPART as part of the review and adjusted where appropriate. At the next review, the RAB will be adjusted to reflect the difference between this estimate and actual expenditure for 2008/09.

<sup>48</sup> The effect of this is to remove investments made by developers from the RAB. This ensures that Gosford Council only earns a return on investments that it funds.

<sup>49</sup> Regulatory depreciation refers to the depreciation amounts allowed for in the 2006 Determination. IPART uses regulatory depreciation, rather than actual depreciation, because the impact of any over/under-expenditure of capital expenditure during the determination period is limited to the return it earns on its expenditure. This provides agencies with an incentive not to overestimate their forecast expenditure at price reviews.

<sup>50</sup> Depending on the rate of development, differences may arise between the actual developer charge receipts and those forecast in the Development Service Plans.

<sup>51</sup> Similar to the approach of establishing the opening RAB, IPART assumes that half the capital expenditure and disposals occur at the beginning of the year (receiving a full year of indexation), with the remainder occurring at the end of the year.

Both these methodologies are the same as those IPART used in making the 2006 Determination.

### 6.2.2 The level of past capital expenditure to be incorporated into the opening value of the RAB

To apply the above methodology for establishing the opening value of the RAB, IPART reviewed Gosford Council's actual capital expenditure over the period since the 2006 Determination (past capital expenditure) to decide whether this capital expenditure was prudent and should therefore be included in the RAB. As part of this review, IPART considered:

- ▼ the information Gosford Council provided in its submission on its past capital expenditure
- ▼ Halcrow's review and recommendations on this expenditure
- ▼ comments in stakeholders' submissions on Gosford Council's past capital expenditure.

#### Gosford City Council's submission on past capital expenditure

The information in Gosford Council's submission indicates that the Council's actual capital expenditure over the 2006 determination period differed significantly from that allowed for by IPART in making the 2006 Determination. As Table 6.3 shows, the Council spent less than allowed for in the first year of the determination period and significantly more than allowed for in the last two years.

**Table 6.3 Gosford City Council: Actual capital expenditure 2006/07 to 2008/09 compared to capital expenditure allowed for in 2006 Determination (\$million 2008/09)**

	2006/07	2007/08	2008/09
Expenditure allowed for in 2006 Determination	47.4	26.6	22.7
Actual expenditure	41.2	41.7	69.9
Difference	-13.0%	56.4%	208.1%

**Source:** 2006 Determination (inflated to \$2008/09) and Gosford Council AIR (IPART inflated to \$2008/09).

In relation to water capital expenditure, Gosford Council indicated that it had underspent by a small amount in 2006/07 and overspent in 2007/08 and 2008/09. The Council attributed this overspending to the fact that several water projects increased in scope over the determination period, and the costs for the groundwater contingency scheme also increased.

The Council also noted that the forecast timing of expenditure was affected by a range of factors, including:

- ▼ the early commencement of pre-construction activities on the Mardi to Mangrove Link
- ▼ increases and delays in expenditure on the Mardi Dam Transfer System (see Box 6.1 for more detail about this project)
- ▼ delays on the Mardi High Lift Pumping Station due to scope modification.

However, it indicated that the deferrals of the Mooney Mooney transfer and Mardi Dam Wall Raising have offset some of the increases in water capital expenditure. (The Mardi Dam Wall Raising project was replaced with more cost-effective alternatives.)

In relation to sewerage capital expenditure, Gosford Council reported that the variation between actual and allowed for expenditure was due to delays caused by its focus on water supply projects. In addition, several projects were delayed due to scope variations.

The Council also reported that the Mooney Mooney Cheero Point backlog sewerage scheme has progressed, with partial NSW Government funding, and is due for completion in early 2009. However, expenditure on the project has increased and been delayed. The Council noted that the increased expenditure was to take advantage of additional government grants available, and delays were due to requirements for regulatory approvals and extensive stakeholder negotiation. (See Box 6.1 for more detail on this scheme.)

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#### **Box 6.1 Gosford Council: Major capital projects over 2006/07 to 2008/09**

##### **Mardi Dam Transfer System**

The Mardi Dam Transfer System involves the construction of a new outlet tower at Mardi Dam and a transfer pipeline and pumping station to take water to Mardi water treatment plant and to the Mardi to Mangrove transfer system.

##### **Mooney Mooney Cheero Point backlog sewerage scheme**

This project provides sewerage services to the villages adjacent to the Hawkesbury River. The system provides environmental and health improvements, and has been partly funded by the NSW Government through the Priority Sewerage Program and the Country Towns Water Supply and Sewerage Program.

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### Halcrow's review of past capital expenditure

IPART engaged Halcrow to review Gosford Council's past (and forecast) capital expenditure program and recommend whether these programs were prudent and efficient. IPART also asked Halcrow to have particular regard to:

- ▼ current and future service outcomes and performance requirements
- ▼ how Gosford Council manages the risks associated with asset failure or underperformance
- ▼ the clarity of drivers for capital expenditure
- ▼ minimising costs over the life of the assets.

Halcrow reviewed the prudence and efficiency of Gosford Council's past capital expenditure by examining a number of individual projects. Halcrow identified that over \$31 million (\$2008/09) of the Council's overspend in 2008/09 can be attributed to the water business. It found that this overspend was due to the drought conditions, which resulted in projects being accelerated and progressed concurrently. It also found that this resulted in projects being delivered at the expense of efficiency. However, it noted that there was little opportunity for the Council to improve efficiency given the prevailing operating conditions.

The Hunter pipeline project contributed approximately \$9.13 million (\$2008/09) to Gosford Council's overspend in the 2006 determination period due to increases in scope and improvements in reliability. Over the same period, groundwater projects contributed \$3.5 million (\$2008/09) to the Council's overspend.

In light of the ongoing drought conditions, Halcrow concluded that most of the Council's capital expenditure program for the 2006 determination period was prudent and efficient. However, it recommended the deduction of approximately \$0.55 million (\$2008/09) the Council had invested in installing rainwater tanks on its properties. Halcrow found that these projects should have been funded by Gosford Council, rather than the water business.

### IPART's draft decision on past capital expenditure to be incorporated into the RAB

After review Gosford Council's submission and Halcrow's report, IPART agrees with Halcrow's recommendation that most of the Council's past capital expenditure was prudent. IPART also agrees with Halcrow that it was not appropriate for the Council's water business to fund the installation of water tanks on council properties, so it has deducted the expenditure associated with these general council investments from the capital expenditure to be incorporated into the RAB.

#### Draft decision

- 6 IPART's draft decision is to include the past capital expenditure shown in Table 6.4 in the opening value of Gosford Council's RAB.

**Table 6.4 Gosford City Council: Draft decision on past capital expenditure to be included in the RAB (\$million 2008/09)**

	2006/07	2007/08	2008/09
<b>Gosford Council proposed</b>			
Water	28.4	21.6	36.5
Sewerage	3.9	14.3	27.1
Stormwater drainage	6.4	4.5	6.3
<b>Gosford Council total</b>	<b>38.7</b>	<b>40.4</b>	<b>69.9</b>
<b>Halcrow recommended</b>			
Water	28.0	21.2	36.5
Sewerage	3.9	14.3	27.1
Stormwater drainage	6.4	4.5	6.3
<b>Halcrow total</b>	<b>38.3</b>	<b>40.0</b>	<b>69.9</b>
<b>IPART draft decision</b>			
Water	28.0	21.2	36.5
Sewerage	3.9	14.3	27.1
Stormwater drainage	6.4	4.5	6.3
<b>IPART total</b>	<b>38.3</b>	<b>40.0</b>	<b>69.9</b>

**Note:** Column totals may not sum due to rounding.

**Source:** Gosford Council submissions; and Halcrow Pacific Pty Ltd, *Review of Capital and Operating Expenditure for Gosford City Council Final Report*, November 2008.

### 6.2.3 The level of forecast capital expenditure to be incorporated when rolling forward the RAB

To decide how much of Gosford Council's forecast capital expenditure should be incorporated when rolling forward the RAB to the end of the 2009 determination period, IPART also considered Gosford Council's submission, Halcrow's review and stakeholder comments.

### Gosford Council's submission on forecast capital expenditure

Gosford Council highlighted that most of its forecast major water capital projects are in accordance with WaterPlan 2050.<sup>52</sup> The Council proposes to undertake the following Joint Water Supply (JWS) projects with Wyong Council:

- ▼ the Mardi to Mangrove Link, which has funding approval for \$80.3 million from the Federal Government
- ▼ the Mardi suite of works, including:
  - Mardi Dam Transfer System (continued from the previous determination)
  - Mardi High Lift Pump Station
  - Mardi Spillway and Bridge
- ▼ Mardi Dam pre-treatment
- ▼ Stormwater harvesting at Porters Creek.

Most of this work will be undertaken by Wyong Council within the Wyong LGA, but will be jointly funded by Gosford Council.<sup>53</sup>

In addition, Gosford Council proposes to undertake some projects within its own area of operations. These include a water main renewal program to improve system reliability; projects within the Gosford CBD development servicing plan needed to service the expected increase in population within Gosford CBD; and projects within Water Quality 2010 to improve the reliability of water quality.

Gosford Council also proposes a significant sewerage capital expenditure program over the 2009 determination period, which it contends is needed to redress underspending in this part of the business in past years. The proposed projects include upgrades at Kincumber and Woy Woy sewage treatment plants; the Coastal Carrier System Upgrade (which includes the delayed North Avoca scheme); and a sewerage enhancement program and sewerage main renewal program to improve performance and reliability of the system.

Box 6.2 discusses some of these proposed capital projects in more detail.

In relation to stormwater drainage capital expenditure, Gosford Council noted that over the 2006 determination period, it increased its spending above the levels allowed for by IPART. This was primarily to take advantage of Federal and State Government grants. Given that the program providing the main source of funding<sup>54</sup> is due to end in 2009, Gosford Council proposes to increase its forecast stormwater capital expenditure to compensate for the loss of funding. The proposed expenditure

<sup>52</sup> Gosford-Wyong Councils' Water Authority, *WaterPlan 2050 Options Report for the Long Term Water Supply Strategy*, July 2007.

<sup>53</sup> Gosford Council notes that it incurs 50 per cent of the JWS expenditure, which accounts for 58 per cent of Gosford Council's forecast water capital expenditure.

<sup>54</sup> Federal Government Natural Disaster Mitigation Program.



in 2009/10 is 74 per cent higher (in real terms) than the allowed figure for 2008/09 in the 2006 Determination.

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## **Box 6.2 Gosford Council: Major capital projects proposed for 2009/10 to 2012/13**

### **Mardi to Mangrove Link**

This JWS project includes constructing a 21 kilometre transfer main to link Mardi Dam (which has a storage capacity of 7.4 GL and is often full) to Mangrove Creek Dam (which is an off-river storage with a capacity of 190 GL). The project also includes constructing two large capacity pumping stations to lift the water approximately 70 metres from Mardi Dam to the Mangrove Creek Dam. In addition there will be a 2.2km rising main from the Lower Wyong River to Mardi Dam. The total cost of the project is estimated at \$110.0 million, of which the Federal Government will provide funding of \$80.3 million. The Authority has already spent \$13.3 million on the project.

### **Mardi suite of works**

These JWS projects includes the Mardi Dam Transfer System, Mardi High Lift Pump Station, Mardi Spillway and Bridge and the high voltage electrical ring main for Mardi infrastructure. The projects will increase pumping capacity, enable greater water transfers between Gosford and Wyong supply systems, meet NSW Dam Safety Committee requirements and provide sufficient electricity for the operation of the upgraded pumps.

### **Mardi Dam pre-treatment**

This JWS project aims to prevent water quality problems in Mardi Dam and Mangrove Creek Dam associated with the pumping of water from Wyong River during high flow conditions when water quality is not of a suitable standard. The existing plant is not capable of meeting the regulatory or aesthetic targets without pre-treatment.

### **Water main renewal program**

This project will replace assets to improve system reliability, reduce leakage and prevent asset failure.

### **Gosford CBD development servicing plan**

This project includes upgrades to replace water assets and accommodate the expected increases in population associated with the redevelopment of Gosford CBD in accordance with the Gosford City Centre Local Environment Plan.

### **Kincumber and Woy Woy sewage treatment plants**

This is a major refurbishment of treatment facilities to maintain process efficiency, mitigate odours and ensure regulatory compliance.

### **Coastal Carrier System Upgrade**

This project includes the replacement and refurbishment of assets to prevent asset failure, accommodate increased flows and avoid sensitive lagoon crossings.

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Table 6.5 and Figure 6.1 below compare Gosford Council's actual capital expenditure over the 2006 determination period with its forecast capital expenditure for the 2009 period. Both show that Gosford Council forecasts that higher levels of capital expenditure will continue until 2010/11. The capital program is supported by Government grants of approximately \$20 million per year in 2009/10 and 2010/11.

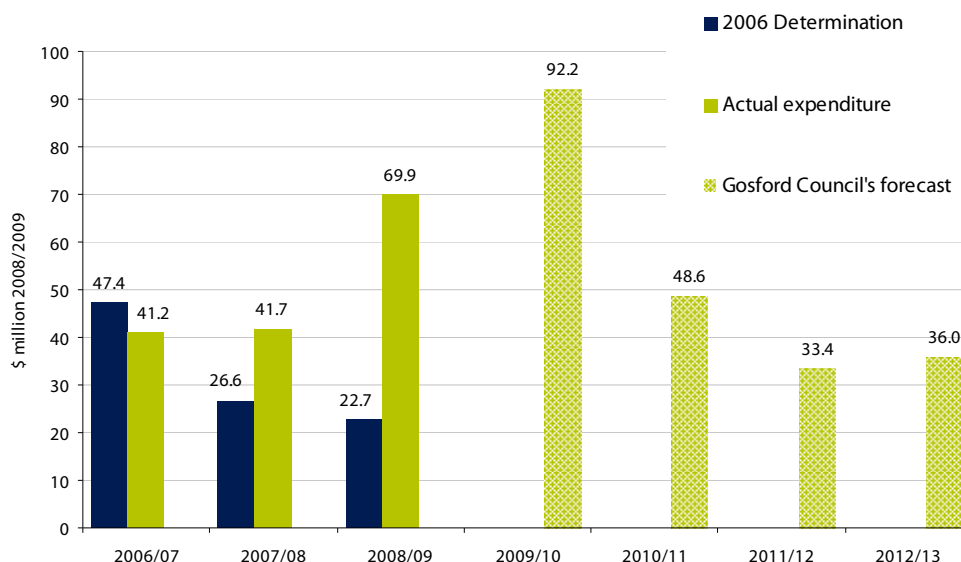
**Table 6.5 Gosford City Council: Actual and forecast capital expenditure 2006/07 to 2012/13 (\$million 2008/09)**

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Water	30.2	22.3	36.5	58.0	22.0	6.2	16.4
Sewerage	4.2	14.7	27.1	28.1	21.1	22.2	13.8
Stormwater drainage	6.8	4.7	6.3	6.1	5.6	5.1	5.8
<b>Total</b>	<b>41.2</b>	<b>41.7</b>	<b>69.9</b>	<b>92.2</b>	<b>48.6</b>	<b>33.4</b>	<b>36.0</b>
% variation on 2006 Det.	<b>-13.0%</b>	<b>56.4%</b>	<b>208.1%</b>				

**Note:** Figures for 2009/10 and 2010/11 include grants of approximately \$20 million in each year.

**Source:** 2006 Determination (inflated to \$2008/09); Gosford Council AIR (IPART inflated to \$2008/09) for 2006/07-2008/09; and Gosford City Council Pricing Proposal – Addendum (23/10/08) for 2009/10 onwards. IPART calculations for gross capital expenditure.

**Figure 6.1 Gosford City Council: Actual and forecast capital expenditure compared to capital expenditure allowed for under 2006 Determination (\$million 2008/09)**



**Note:** Figures for 2009/10 and 2010/11 include grants of approximately \$20 million in each year.

**Data source:** 2006 Determination (inflated to \$2008/09); Gosford Council AIR (IPART inflated to \$2008/09) for 2006/07-2008/09; and Gosford City Council Pricing Proposal – Addendum (23/10/08) for 2009/10 onwards. IPART calculations for gross capital expenditure.

### Halcrow's review of forecast capital expenditure

To review the efficiency and prudence of Gosford Council's forecast capital expenditure program, Halcrow investigated individual projects equal to 45 per cent of the total program. It found that most, but not all, of the forecast program was efficient and prudent. It recommended that the costs associated with the inefficiencies it identified be deducted from the Council's forecast capital expenditure. It also recommended that the Council's forecast capital expenditure be further reduced by incorporating some efficiency savings targets in the last three years of the determination period.

Overall, Halcrow noted that Gosford Council's forecast capital expenditure in 2009/10 is considerably more than the actual expenditure of recent years. One water project – the Mardi to Mangrove project – accounts for \$34.5 million (\$2008/09), or around a third of the Council's forecast capital expenditure in this year. Given that this project's timeframe is dictated by the required completion date to receive the Federal grant, Halcrow concluded that it represents a sound investment decision. Halcrow also noted that an internal governance structure has been built into the project's process to ensure the efficient delivery of the scheme.

In relation to water capital expenditure in general, Halcrow concluded that much of the forecast capital program for the 2009 determination period is both efficient and necessary. However, it did not consider that the magnitude of the increase in water main renewals expenditure is justified and recommended that the expenditure profile be amended to reflect what it considers is a realistically achievable program. It also identified some costs associated with some recycled water schemes that Gosford Council had incorrectly allocated to the water business, and recommended that these be deducted for the forecast expenditure.<sup>55</sup>

In relation to sewerage capital expenditure, Halcrow recommended that the expenditure program be reduced to reflect changes in scope for the Terrigal to Kincumber Augmentation project. Halcrow concluded that this project (as described in Gosford Council's submission) was not justified or efficient. Halcrow recommended that the key drivers for the project could be satisfied with a lower budget and reduced scope. For this project, Gosford Council forecast expenditure of \$37.8 million (\$2008/09) over the determination period. Halcrow recommended that this figure be reduced to \$23 million (\$2008/09).

In relation to stormwater drainage capital expenditure, Halcrow recommended that Gosford Council's forecasts be adjusted to reflect the annual average expenditure over the 2006 Determination. It considered that this level of expenditure was a more realistic program.

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<sup>55</sup> As Chapter 2 indicated, recycled water services are outside the scope of this review. The costs of the Council's current schemes are not recovered from water and sewerage periodic charges.

In relation to efficiency savings targets, Halcrow noted that Gosford Council had not included any efficiency savings targets in its proposed capital expenditure, and has experienced difficulties in the past in delivering capital projects within budget. However, it also noted that the Council is currently undertaking work to improve its asset management framework. Halcrow considers that with these improvements, there is scope for the Council to make efficiency savings of 1.0 per cent of its forecast capital expenditure in 2010/11, a further 1.0 per cent in 2011/12 and a further 1.5 per cent in 2012/13.

### Stakeholder comments

The Total Environment Centre submitted that the Mardi to Mangrove Link would not be necessary if Gosford Council invested more in recycling, stormwater harvesting and demand management. However, it also noted that the Mardi to Mangrove Link was preferable to constructing the Tillegra Dam or a permanent desalination plant.<sup>56</sup>

### IPART's draft decision on forecast capital expenditure to be incorporated when rolling forward the RAB

IPART accepts the findings of Halcrow's review and has decided to adjust Gosford Council's forecast capital expenditure in line with Halcrow's recommendations, including the recommended efficiency savings.

### Draft decision

- 7 IPART's draft decision is to incorporate the forecast capital expenditure shown in Table 6.6 when rolling forward Gosford Council's RAB to the end of the 2009 determination period.

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<sup>56</sup> Total Environment Centre, *Submission By Total Environment Centre to the Independent Pricing and Regulatory Tribunal*, October 2008, p 3.

**Table 6.6 Gosford City Council: IPART's draft decision on forecast capital expenditure to be incorporated with rolling forward the RAB (\$million 2008/09)**

	2009/10	2010/11	2011/12	2012/13	Total
<b>Gosford Council proposed</b>					
Water	58.0	22.0	6.2	16.4	<b>102.5</b>
Sewerage	28.1	21.1	22.2	13.8	<b>85.1</b>
Stormwater drainage	6.1	5.6	5.1	5.8	<b>22.5</b>
<b>Gosford Council total</b>	<b>92.2</b>	<b>48.6</b>	<b>33.4</b>	<b>36.0</b>	<b>210.1</b>
<b>Halcrow recommended</b>					
Water	57.8	20.3	4.2	9.1	<b>91.3</b>
Efficiency saving	0.0	(0.2)	(0.1)	(0.3)	<b>(0.5)</b>
Sewerage	26.9	17.8	15.8	10.0	<b>70.4</b>
Efficiency saving	0.0	(0.1)	(0.2)	(0.3)	<b>(0.6)</b>
Stormwater drainage	5.7	5.2	4.8	5.5	<b>21.2</b>
Efficiency saving	0.0	(0.1)	(0.1)	(0.2)	<b>(0.3)</b>
<b>Halcrow total</b>	<b>90.5</b>	<b>43.0</b>	<b>24.3</b>	<b>23.7</b>	<b>181.5</b>
<b>IPART's draft decision</b>					
Water	57.8	20.3	4.2	9.1	<b>91.3</b>
Efficiency saving	0.0	(0.2)	(0.1)	(0.3)	<b>(0.5)</b>
Sewerage	26.9	17.8	15.8	10.0	<b>70.4</b>
Efficiency saving	0.0	(0.1)	(0.2)	(0.3)	<b>(0.6)</b>
Stormwater drainage	5.7	5.2	4.8	5.5	<b>21.2</b>
Efficiency saving	0.0	(0.1)	(0.1)	(0.2)	<b>(0.3)</b>
<b>IPART Total</b>	<b>90.5</b>	<b>43.0</b>	<b>24.3</b>	<b>23.7</b>	<b>181.5</b>

**Note:** Column totals may not sum due to rounding. Gosford Council proposal did not incorporate efficiency savings.

**Source:** Gosford Council submissions; and Halcrow Pacific Pty Ltd, *Review of Capital and Operating Expenditure for Gosford City Council, Final Report*, November 2008.

#### 6.2.4 Other adjustments required when rolling forward the RAB

To apply the methodologies for establishing the opening value of the RAB and rolling forward the RAB to the end of the determination period (see section 6.2.1), IPART also calculated the value any deductions to the RAB to account for:

- ▼ past and forecast capital contributions from developers or government
- ▼ past and forecast asset disposals
- ▼ regulatory depreciation allowed for in the 2006 Determination and to be allowed for in the 2009 determination period
- ▼ past and forecast inflation.

### Adjustments to account for capital contributions

'Capital contributions' refers to the revenue Gosford Council receives from developers in accordance with IPART's *Determination No 9, 2000, Developer Charges from 1 October 2000*, and from other sources such as Federal Government grants.

IPART's draft decision on the adjustments to the RAB to account for capital contributions are in line with Gosford Council's reported information on the past and forecast levels of cash contributions from developers and other sources.

#### Draft decision

- 8 IPART's draft decision is to deduct the amounts shown on Table 6.7 and Table 6.8 from the value of the RAB to account for capital contributions.

**Table 6.7 Gosford City Council: Draft decision on level of capital contributions from developers to be deducted from the RAB (\$million 2008/09)**

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Water	0.7	0.4	0.9	1.1	1.2	1.2	1.3
Sewerage	0.8	0.6	0.7	0.8	0.8	0.8	0.9
Stormwater drainage	0.5	0.5	0.5	0.7	0.7	0.7	0.5
<b>Total</b>	<b>2.0</b>	<b>1.5</b>	<b>2.2</b>	<b>2.6</b>	<b>2.7</b>	<b>2.7</b>	<b>2.8</b>

Source: Gosford City Council.

**Table 6.8 Gosford City Council: Draft decision on level of capital contributions from other sources to be deducted from the RAB (\$million 2008/09)**

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Water grants	3.4	1.0	4.6	21.4	18.6	0.2	0.2
Sewerage grants	0.8	2.1	7.6	0.1	0.4	0.4	0.0
Stormwater drainage grants	2.9	3.0	3.8	3.5	3.0	2.6	0.0
<b>Total</b>	<b>7.1</b>	<b>6.1</b>	<b>16.0</b>	<b>25.0</b>	<b>22.0</b>	<b>3.2</b>	<b>0.2</b>

Source: Gosford City Council.

### Adjustments to account for the disposal of assets

Asset disposals over time, both past and future, need to be deducted from the RAB. As in past reviews, IPART calculated the amount to be deducted based on the asset disposals recorded on the Council's Profit and Loss Statement, adjusted by the proportion of 55 per cent.<sup>57</sup>

<sup>57</sup> This is to reflect the regulatory value of the asset disposals compared to the book value of the assets.

Draft decision

- 9 IPART's draft decision is to deduct the amounts shown on Table 6.9 from the value of the RAB to account for the disposal of assets.

**Table 6.9 Gosford City Council: Draft decision on amounts to be deducted from RAB to account for asset disposals (\$million 2008/09)**

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Non-depreciable	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciable	0.3	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Source: Gosford City Council.

#### Adjustments to account for regulatory depreciation

The RAB is adjusted each year to account for regulatory depreciation.<sup>58</sup> In relation to past depreciation to be deducted from the opening RAB, IPART has used the amounts allowed in the 2006 Determination. In calculating future depreciation, IPART has used the straight-line depreciation method.

Draft decision

- 10 IPART's draft decision is to deduct the amounts shown on Table 6.10 to account for regulatory depreciation.

**Table 6.10 Gosford City Council: Regulatory depreciation to be deducted from RAB (\$ million 2008/09)**

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Water	2.2	2.4	2.4	2.8	3.0	3.0	3.0
Sewerage	2.5	2.6	2.7	2.8	3.0	3.1	3.3
Stormwater drainage	(0.0)	0.0	0.0	0.0	0.1	0.1	0.1
<b>Total</b>	<b>4.6</b>	<b>5.0</b>	<b>5.1</b>	<b>5.6</b>	<b>6.0</b>	<b>6.2</b>	<b>6.4</b>

#### 6.2.5 Resulting value for RAB

Using the methodologies and draft decisions discussed above, IPART calculated the value of the RAB in each year of the 2009 determination period shown on Table 6.11 below.

<sup>58</sup> An allowance is made for this within the revenue required for capital investment. This is discussed further in section 6.4.

**Table 6.11 Gosford City Council: Value of the RAB over the 2009 determination period (\$million 2008/09)**

	2009/10	2010/11	2011/12	2012/13
Water	208.8	240.6	237.9	236.4
Sewerage	191.9	215.2	228.8	240.0
Stormwater drainage	3.2	5.5	6.9	8.1
<b>Total</b>	<b>403.9</b>	<b>461.3</b>	<b>473.6</b>	<b>484.5</b>

**Note:** Column totals may not sum due to rounding.

### 6.3 Deciding on an appropriate rate of return

Once it calculated the value of Gosford Council's RAB over the determination period, IPART decided on an appropriate rate of return for the Council. It then multiplied the rate of return by the value of the RAB in each year of the determination period to calculate the allowance for a return on assets.

There are several approaches for deciding on an appropriate rate of return. As for previous reviews, IPART used the weighted average cost of capital (WACC) approach. It developed a range for the water utilities' real pre-tax WACC, then made a judgement on the most appropriate rate of return for Gosford Council within this range.

In exercising its judgement, IPART considered Gosford Council's proposed rate of return and its own analysis of the implications of its chosen rate of return for customers, the Council's financial viability and economic efficiency.

#### 6.3.1 Gosford City Council's proposed rate of return

In its submission, Gosford Council argued that a real pre-tax WACC of 7.5 per cent, subject to changes in market conditions, is appropriate as this rate of return is consistent with the rate of return IPART used in making its determination for Sydney Water in 2008. However, in calculating its proposed revenue requirement, the Council used a real pre-tax rate of return of 6.3 per cent on the grounds that using a 7.5 per cent rate of return would result in unacceptably high prices for customers.<sup>59</sup>

IPART notes that a WACC of 7.5 per cent implies a rate of return to equity holders of approximately 10.9 per cent per annum. Gosford Council has reduced this return to equity holders to 9.0 per cent, resulting in a real pre-tax rate of return of 6.3 per cent.

<sup>59</sup> Ibid, p 50.



### 6.3.2 IPART's analysis and draft decision

#### Draft decision

- 11 IPART's draft decision is that for the purposes of calculating the allowance for a return on assets, a real pre-tax WACC of 7.0 per cent will be applied.

In making its decision on the rate of return, IPART calculated a range for the WACC using the parameters shown on Table 6.12 below. These parameters were based on market conditions averaged for the 20 days to 14 January 2009. IPART recognises that there has been significant volatility in financial markets recently and there is likely to be continued volatility in the future. This has affected the quality of data underpinning the market-based parameters (the risk free rates, the resulting implied inflation forecast, and the debt margin). IPART has conducted preliminary analysis on these parameters and intends to finalise its position prior to its final determination.

**Table 6.12 Gosford Council: Draft decision on the rate of return and the parameters IPART used to calculate the WACC**

WACC Parameters	Market value
Nominal risk free rate <sup>a</sup>	4.2%
Real risk free rate <sup>a</sup>	2.8% <sup>b</sup>
Inflation	1.3%
Market risk premium	5.5% - 6.5%
Debt margin <sup>a</sup>	1.2% - 3.6%
Debt to total assets	60%
Dividend imputation factor (gamma)	0.5 - 0.3
Tax rate	30%
Equity beta	0.8 - 1.0
Cost of equity (nominal post-tax)	8.6% - 10.7%
Cost of debt (nominal pre-tax)	5.4% - 7.7%
WACC range (real pre-tax)	5.9% - 8.6%
IPART adopted WACC (real pre-tax)	7.0%

<sup>a</sup> Reflects the average of the nominal risk free rate for the 20 days to 14 January 2009.

<sup>b</sup> Includes a scarcity premium of 20 basis points. Calculated by adding 20 basis points to the real risk free rate of 2.6%.

IPART also investigated the implications of its chosen rate of return on the average bills paid by customers with differing characteristics, and on Gosford Council's economic efficiency and financial viability (estimated by changes in key financial ratios). IPART considers that a rate of return of 7 per cent, which is just below the mid-point in the range for the WACC IPART calculated, achieves an appropriate balance between these competing interests.

IPART intends to release a series of working papers commencing February 2009 seeking comments on alternative approaches to calculating market-based parameters, particularly the implied inflation rate and the debt margin. Responses to this draft decision and the findings of the consultation on the market-based parameters will guide IPART's considerations when making its final determination.

A detailed discussion of IPART's considerations in relation to the appropriate rate of return is provided in Appendix C.

#### **6.4 Deciding on the depreciation method and asset lives**

To calculate the allowance for regulatory depreciation, IPART used the straight-line depreciation method. Under this method, the assets in the RAB are depreciated by an equal value in each year of their economic life, so that their real written-down value describes a straight line over time, from the initial value of the asset to zero at the end of the assets life. IPART considers that this method is superior to alternatives in terms of simplicity, consistency and transparency.

IPART then decided on the asset lives to be used in calculating depreciation. In line with the 2006 Determination, it assumed that existing assets had a life of 73 to 100 years, and new assets had a life of 100 years.

Finally, IPART decided on an appropriate depreciation rate for Gosford Council's two groups of assets:

- ▼ existing assets were depreciated by between 1 per cent and 1.37 per cent (in line with assumed lives of between 100 and 73 years)
- ▼ new assets were depreciated at the rate of 1 per cent (in line with an assumed asset life of 100 years).

This resulted in the allowance for regulatory depreciation shown in Table 6.2, at the front of this chapter.

## 7 | Wyong Council: overview of revenue requirement

As Chapter 3 discussed, IPART used the building block approach to determine Wyong Council's notional revenue requirement over the determination period. To apply the building block approach, IPART made draft decisions on:

- ▼ The revenue required for operating expenditure over the determination period, including the forecast efficient operating and maintenance costs plus an allowance for working capital.
- ▼ The revenue required for capital investment over the determination period, including:
  - an allowance for a return on the Council's water, sewerage and stormwater drainage assets
  - an allowance for a return of assets (depreciation).

The sum of these amounts represents IPART's view of the Council's total efficient costs over the determination period, or its notional revenue requirement.

Then, as Chapter 3 also discussed, IPART considered the price levels required to generate the notional revenue requirement and the implications of these price levels for customers, the Council's financial viability, and economic efficiency. It then adjusted the notional revenue requirement downwards, to achieve an acceptable balance between these competing interests. The resulting revenue is known as the target revenue.

Finally, IPART estimated the revenue the Council will earn over the determination period from other fees and charges (eg, trade waste charges and ancillary charges). It subtracted this revenue from the target revenue, and then set prices to generate the resulting amount.

The sections below set out Wyong Council's proposed notional revenue requirement, IPART's draft decisions on the Council's notional and target revenue requirements, and its draft decision on the revenue from other fees and charges to be subtracted from the target revenue before setting prices.

## 7.1 Wyong Council's proposed revenue requirement

In its submission to the review, Wyong Council indicated that it needed revenue of \$58.4 million per annum (on average) to meet the costs of running the water, sewerage and stormwater drainage system for the next four years. Wyong Council did not use a building block approach to calculate this proposed revenue requirement. However, implicit in its submission was a rate of return on assets of approximately 2 per cent per annum (real pre-tax).

Wyong Council's proposed revenue requirement is summarised in Table 7.1 below.

**Table 7.1 Wyong Shire Council: Proposed revenue requirement (\$million 2008/09)**

	2009/10	2010/11	2011/12	2012/13
Operating expenditure	44.7	45.8	44.7	42.0
Return on assets	7.4	8.4	8.6	8.8
Regulatory depreciation	5.2	5.8	6.0	6.1
Return on working capital	-0.1	0.0	0.1	0.1
<b>Total revenue requirement</b>	<b>57.2</b>	<b>60.0</b>	<b>59.4</b>	<b>57.0</b>

**Note:** Column totals may not sum due to rounding.

**Source:** IPART modelling of Wyong Council's Submission to the 2009/10 to 2012/13 IPART review of charges for water, sewerage and drainage services.

## 7.2 IPART's draft decisions on the notional revenue requirement and target revenue

IPART's draft decisions on both the notional revenue requirement and target revenue are significantly higher than Wyong Council's proposed revenue requirement, particularly in the last two years of the determination period. The main reason for this is that IPART's calculated notional revenue requirement reflects the full, efficient costs of providing the services over the determination period, including a reasonable rate of return that is similar to that earned by other water businesses in NSW.

IPART's modelling and analysis of the Council's pricing proposal found that the implied rate of return on assets included in the proposal is only 2.0 per cent per annum. This is significantly lower than that earned by other water businesses, and would result in the Council achieving a credit rating of BB, which is below investment grade. In contrast, IPART applied a rate of return of 7.0 per cent per annum in calculating the notional revenue requirement.

However, to moderate the impact on customers, IPART decided to use a glide path approach in setting prices. It also decided to postpone recovery of a return of capital and a return on capital of a portion of Wyong Council's growth-related capital expenditure over the next four years from the RAB. As a result, IPART's calculated target revenue increases from a level approximately in line with Wyong Council's

proposed revenue requirement in 2009/10 to the same level as the notional revenue requirement in 2012/13.

IPART considers that the decision to increase Wyong Council's prices gradually to reach a level that reflects the full, efficient costs of providing the services (including a rate of return of 7.0 per cent per annum on assets) in 2012/13 strikes the best balance between the competing needs to moderate the impact of prices increases on customers, encourage economic efficiency, and to ensure Wyong Council's water, sewerage and stormwater drainage operations are financially viable. However, the decision also means that Wyong Council will forego \$21.8 million in revenue over the four years of the determination.

IPART's draft decisions on Wyong Council's notional revenue requirement and target revenue for the 2009 determination period are set out in Table 7.2 below.

**Table 7.2 Wyong Shire Council: IPART's draft decisions on notional revenue requirement and target revenue (\$million 2008/09)**

	2009/10	2010/11	2011/12	2012/13
<b>Notional revenue requirement</b>				
Operating expenditure	37.6	38.3	38.1	38.3
Depreciation (regulatory)	4.8	5.1	5.2	5.4
Return on fixed assets	25.7	27.4	28.4	29.1
Return on working capital	0.0	0.2	0.3	0.3
<b>Total</b>	<b>68.0</b>	<b>70.9</b>	<b>71.9</b>	<b>73.1</b>
<b>Target revenue</b>				
Operating Expenditure	37.6	38.3	38.1	38.3
Depreciation (regulatory)	4.8	5.1	5.2	5.4
Return on Fixed Assets	16.1	19.4	24.2	29.1
Return on Working Capital	0.0	0.1	0.2	0.3
<b>Total</b>	<b>58.4</b>	<b>62.9</b>	<b>67.7</b>	<b>73.1</b>
Return on assets (real pre-tax)	4.33%	4.91%	5.94%	7.00%

**Note:** Column totals may not sum due to rounding.

### 7.3 IPART's draft decision on revenue from other fees and charges

To calculate the revenue to be recovered through water, sewerage and stormwater drainage services, IPART subtracts (from the overall target revenue specified in Table 7.2 above) the revenue Wyong Council is forecast to earn from 'other fees and charges', such as trade waste charges and charges for ancillary and miscellaneous services. IPART adjusts the income from 'other fees and charges' for any changes in pricing assumptions or general price increases.

IPART's draft decision on the revenue from other fees and charges to be subtracted from Wyong Council's target revenue prior for the purpose of setting prices is shown on Table 7.3.

**Table 7.3 Wyong Shire Council: IPART's draft decision on revenue from other frees and charges to be subtracted from target revenue (\$million 2008/09)**

	2009/10	2010/11	2011/12	2012/13
Trade waste revenue	0.7	0.7	0.7	0.7
Revenue from ancillary charges	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>

**Note:** Column totals may not sum due to rounding. Wyong Council have not provided details on ancillary charges.

Chapters 8 and 9 discuss IPART's draft decision on the revenue Wyong Council requires for operating expenditure and capital investment in detail.

## 8 Wyong Council: revenue required for operating expenditure

To determine how much revenue Wyong Council will require for operating expenditure over the determination period, IPART assessed the efficient level of operating and maintenance costs Wyong Council will incur in providing water, sewerage and stormwater drainage services over this period.

As part of this assessment, IPART engaged Halcrow, an independent engineering consultant, to review Wyong Council's forecast operating expenditure and recommend the efficient level for this expenditure. IPART also sought comment from other stakeholders on:

- ▼ the efficiency of the projected operating expenditure outlined in Wyong Council's submission
- ▼ whether there was scope for Wyong Council to achieve further efficiency gains over the determination period.

The section below summarises IPART's draft decision on the revenue required for operating expenditure. The following sections discuss IPART's considerations in reaching this decision, including Wyong Council's submission on its past and forecast operating expenditure, Halcrow's review and recommendations on this expenditure, stakeholders' comments, and IPART's own analysis and findings on Wyong Council's operating expenditure.

### 8.1 Summary of IPART's draft decision

Draft decision

- 12 IPART's draft decision is that the efficient level of operating expenditure Wyong Council requires to provide its water, sewerage and stormwater drainage services over the period 2009/10 to 2012/13 is as shown in Table 8.1.

**Table 8.1 Wyong Shire Council: Draft decision on revenue required for operating expenditure (\$million 2008/09)**

	2009/10	2010/11	2011/12	2012/13	Total
Wyong Council proposed total	43.3	43.7	44.5	44.1	175.6
Halcrow recommended total	38.3	40.2	41.1	41.0	160.6
<b>IPART draft decision</b>					
Corporate	8.9	7.7	6.7	7.0	30.3
Water	16.1	17.6	18.1	17.7	69.5
Sewerage	11.6	11.9	12.2	12.4	48.1
Stormwater drainage	1.0	1.0	1.0	1.1	4.1
<b>IPART total</b>	<b>37.6</b>	<b>38.2</b>	<b>38.1</b>	<b>38.3</b>	<b>152.1</b>

**Note:** Column totals may not sum due to rounding. Total operating expenditure includes the efficiency allowance.

**Source:** Wyong Council submissions and Halcrow Pacific Pty Ltd, *Review of Capital and Operating Expenditure for Wyong Shire Council Final Report*, November 2008.

IPART's draft decision on Wyong Council's total operating expenditure is based on the same level of operating expenditure per property as it has allowed for Gosford Council.<sup>60</sup> After considering the Council's forecast operating expenditure and Halcrow's review of this expenditure, IPART was concerned about the reliability of the Council's operating expenditure projections, particularly for corporate overheads. IPART considers its draft decision strikes the best balance between the need to ensure that Wyong Council has sufficient revenue to meet its efficient operating expenditure and protect customers from unwarranted price increases.

## 8.2 Wyong Council's submission

Wyong Council's submission outlined its past operating expenditure over the 2006 determination period and its forecast operating expenditure for the 2009 period, and explained the drivers of these expenditures.

### 8.2.1 Past operating expenditure

Over the past three years, the JWS (and therefore Wyong Council) spent significantly more than the operating expenditure IPART allowed for in making the 2006 Determination. Wyong Council indicated that much of the overspend was driven by the drought. For example, it reported significant expenditure on demand management measures targeted at managing the Central Coast's water reserves through the drought.

<sup>60</sup> That is, IPART has taken its draft decision on the revenue Gosford Council requires for operating expenditure and divided it by the number of water connections in Gosford Council's area. IPART has then taken this operating expenditure per property value and multiplied it by the number of customer connections in Wyong Council's area to arrive at its draft decision on the revenue required for operating expenditure for Wyong Council.



Table 8.2 sets out the operating expenditure Wyong Council proposed during the 2006 review, the operating expenditure IPART allowed for in making the 2006 Determination, and the Council's actual operating expenditure over the 2006 determination period.

**Table 8.2 Wyong Shire Council: Proposed, determined and actual operating expenditure, 2006/07 to 2008/09 (\$million 2008/09)**

	Division	2006/07	2007/08	2008/09
WSC Submission 2007-09	Corporate	18.0	18.1	18.1
	Water	11.4	12.6	12.5
	Sewerage	11.1	11.3	11.5
	Stormwater drainage	1.4	1.4	1.5
	Total	42.0	43.5	43.8
IPART Determination 2007-09	Corporate	6.4	6.5	6.7
	Water	12.9	14.2	14.2
	Sewerage	12.3	12.3	12.3
	Stormwater drainage	0.0	0.0	0.0
	Total	31.6	32.9	33.1
Actual Outcome 2007-09	Corporate	26.6	19.4	24.3
	Water	16.9	13.1	13.2
	Sewerage	11.3	11.2	9.4
	Stormwater drainage	0.5	1.0	1.2
	Total	55.3	44.7	48.1

**Source:** Wyong Council submissions September/October 2008, Wyong Council Annual Information Return and Special Information Return to IPART 2008.

### 8.2.2 Forecast operating expenditure

Wyong Council's submission included forecast operating expenditure for 2009/10 to 2012/13, as shown in Table 8.3. This forecast expenditure is lower than its actual annual expenditure over the past three years, but is still significantly higher than the annual expenditure IPART allowed for in the 2006 Determination. Wyong Council indicated that its forecast operating expenditure includes efficiency savings, but did not provide any details of these savings.

**Table 8.3 Wyong Council: Forecast operating expenditure 2009/10 to 2012/13 (\$million 2008/09)**

	2009/10	2010/11	2011/12	2012/13	Total
Corporate	18.8	17.8	17.5	17.2	71.3
Water	13.5	14.6	15.1	14.7	57.9
Sewerage	9.5	9.7	9.9	10.1	39.3
Stormwater drainage	1.4	1.7	1.9	2.1	7.1
<b>Total</b>	<b>43.3</b>	<b>43.7</b>	<b>44.5</b>	<b>44.1</b>	<b>175.6</b>

**Source:** Wyong Council submissions September/October 2008, Halcrow Pacific Pty Ltd, *Review of Capital and Operating Expenditure for Wyong Shire Council Final Report*, November 2008.

In its water business, Wyong Council incurs operating expenditure for JWS assets and for its own reticulation assets. It forecasts total water operating expenditure of \$57.9 million for the 2009 determination period, which is equivalent to approximately \$14.5 million per annum (\$2008/09). This is a substantial increase over Wyong Council's forecast water operating expenditure for 2006/07 to 2008/09. Wyong Council attributes this increase to the following factors:

- ▼ growth in customer numbers and therefore in the assets required to service customers
- ▼ increases in salary and wages
- ▼ increased maintenance costs due to aging assets
- ▼ increased costs to meet mandatory standards
- ▼ bulk water purchases from Hunter Water.

Wyong Council's forecast operating expenditure for sewerage services is also higher than that allowed for in the 2006 Determination. For sewerage, Wyong Council attributes this to increases in salaries and wages, increased maintenance costs due to aging assets and increased costs to meet mandatory standards. For stormwater drainage, Wyong Council attributes an increase in its reported costs to the number of properties it serves, increases in salaries and wages, increased maintenance costs due to aging assets and increased costs to meet mandatory standards.<sup>61</sup>

### 8.2.3 Comparison of past and forecast operating expenditure

Using the information submitted by Wyong Council, Table 8.4 shows the Council's actual operating expenditure over the 2006 determination period and its forecast operating expenditure for the 2009 period. The table also shows how the actual expenditure varied from that allowed for in the 2006 Determination.

<sup>61</sup> IPART did not set an specific allowance for stormwater drainage operating expenditure in the 2006 Determination. Instead, sufficient revenue was allowed for in the water and sewerage operating expenditure allowance to cover stormwater operating costs.

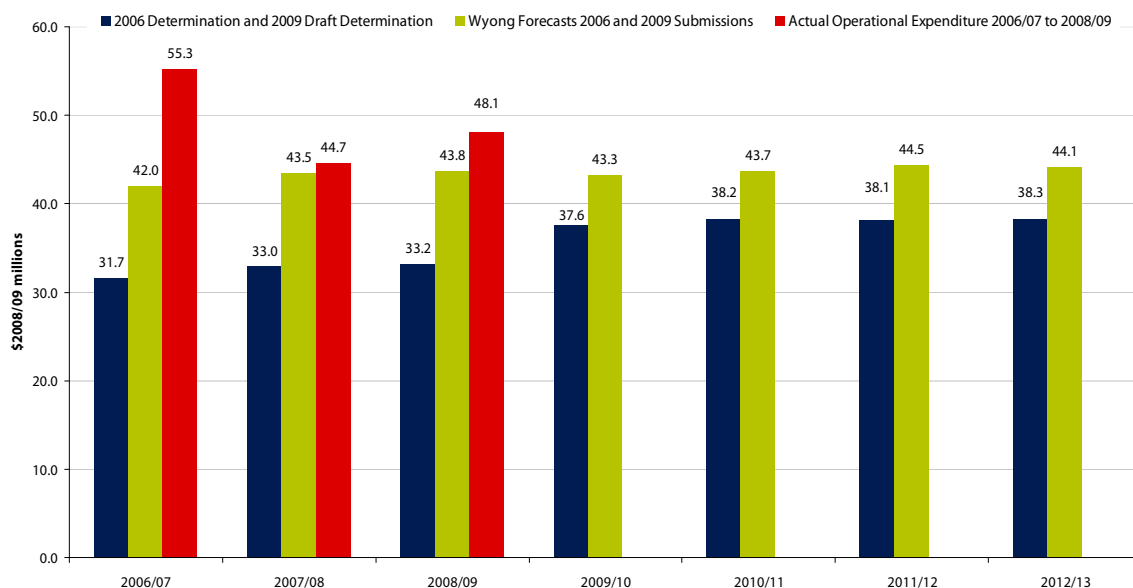
**Table 8.4 Wyong Shire Council: Actual and forecast operating expenditure 2006/07 to 2012/13 (\$ million 2008/09)**

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Corporate	26.6	19.4	24.3	18.8	17.8	17.5	17.2
Water	16.9	13.1	13.2	13.5	14.6	15.1	14.7
Sewerage	11.3	11.2	9.4	9.5	9.7	9.9	10.1
Stormwater drainage	0.5	1.0	1.2	1.4	1.7	1.9	2.1
<b>Total</b>	<b>55.3</b>	<b>44.7</b>	<b>48.1</b>	<b>43.3</b>	<b>43.7</b>	<b>44.5</b>	<b>44.1</b>
Variation from IPART 2006 Determination	74%	35%	45%				

**Note:** Column totals may not sum due to rounding. Halcrow made minor adjustments to Wyong Council's forecasts to remove some minor errors in Wyong Council's submission. This was done after consultation with Wyong Council.

**Source:** Halcrow Pacific Pty Ltd, *Review of Capital and Operating Expenditure for Wyong Shire Council Final Report*, November 2008.

Wyong Council's forecast total operating expenditure is higher (in real terms) than the operating expenditure allowed in the 2006 Determination, but lower than the Council's actual expenditure over the 2006 determination period. Further, the Council's forecast indicates that its operating expenditure is expected to remain approximately constant over the next three years. This is further illustrated in Figure 8.1.

**Figure 8.1 Wyong Shire Council: Actual, allowed and forecast operating expenditure, 2006/07 to 2012/13 (\$million, 2008/09)**

**Note:** Wyong Council actual for 2008/09 is a projection on best available information for the rest of 2008/09.

**Data source:** 2006 Determination; Wyong Council AIR inflated to \$2008/2009; Halcrow Pacific Pty Ltd, *Review of Capital and Operating Expenditure for Wyong Shire Council, Final Report*, November 2008.

### 8.3 Halcrow's review

IPART engaged Halcrow to review Wyong Council's past operating expenditure over the 2006 determination period, and its forecast operating expenditure for the 2009 period. It asked Halcrow to recommend the efficient forecast operating expenditure required to provide the Council's water, sewerage and stormwater drainage services from 2009/10 to 2012/13.

#### 8.3.1 Halcrow's findings on past operating expenditure

Halcrow confirmed that Wyong Council's operating expenditure over the 2006 determination period was significantly higher than the expenditure allowed for in the 2006 Determination.

Halcrow noted that many of the measures implemented by Wyong Council and the JWS over the past determination period were short-term contingency measures, including undertaking demand management activities, developing recycled water and groundwater schemes, transferring water from Hunter Water, and upgrading the water supply system. Each of these activities contributed to greater than usual operating expenditure. Given the prevailing climatic conditions at the time, Halcrow concluded that much of the overspend was as a result of the drought.

While Halcrow questioned the prudence of Wyong Council's expenditure on rainwater tank and washing machine rebates, this operating expenditure has not and will not be recovered from customers.

#### 8.3.2 Halcrow's findings on forecast operating expenditure

Overall, Halcrow identified many concerns about the accuracy and reliability of Wyong Council's forecast operating expenditure. These concerns related to the allocation of costs to the corporate overheads category that should have been allocated to the water, sewerage and stormwater drainage categories. Halcrow also identified some double-counting of costs and some inefficiencies. Halcrow recommended deductions in the forecast expenditure to correct mistakes and remove inefficiencies, and that the Council's forecast operating expenditure be adjusted to include higher efficiency savings targets.

As Table 8.5 shows Halcrow's recommended levels of operating expenditure (including its recommended efficiency savings) are 8 to 13 per cent lower than the Council's forecast expenditure in each year of the 2009 determination period.

**Table 8.5 Wyong Shire Council: The Council's forecast and Halcrow's recommended operating expenditure for 2009/10 to 2012/13 (\$ million 2008/09)**

	2009/10	2010/11	2011/12	2012/13
Wyong Council proposal	43.3	43.7	44.5	44.1
Halcrow recommended	38.3	40.2	41.1	41.0
Difference (%) <sup>a</sup>	13%	9%	8%	8%

<sup>a</sup> Percentage by which Wyong Council's proposal exceeds Halcrow's recommendations.

**Source:** Wyong Shire Council's submission September 2008 (corrected by Halcrow) and Halcrow Pacific Pty Ltd, *Review of Capital and Operating Expenditure for Wyong Shire Council, Final Report*, November 2008.

Halcrow's findings and recommendations in relation to Wyong Council's forecast operating expenditure related to corporate overheads, water, sewerage, stormwater drainage and efficiency savings targets are discussed in more detail below.

### Corporate overheads

Halcrow found that some forecast operating expenditure related to water, sewerage and stormwater drainage services had been misallocated to corporate overheads. Halcrow reallocated this expenditure to the appropriate category. This approximately halved Wyong Council's forecast operating expenditure for corporate overheads but increased the forecast expenditure for water, sewerage and stormwater drainage services.

Halcrow also noted that some contributions from water and sewerage to stormwater drainage were also debited against corporate overheads.

### Water

In addition to the reallocations from corporate overheads discussed above, Halcrow also adjusted Wyong Council's forecast water operating expenditure to:

- ▼ remove a growth factor that had been applied to operating expenditure that does not vary materially with changes in customer numbers/consumption over the ranges likely for the determination period (ie, fixed costs related to the capacity of the infrastructure)
- ▼ correct for the double counting of the effects of inflation on Wyong Council's forecast operating expenditure on the JWS ground-water scheme
- ▼ remove expenditure associated with rebates on rainwater tanks and washing machines<sup>62</sup>, as it did not consider these to be efficient in light of increased water storage levels and the JWS's decision to proceed with the Mardi to Mangrove Link
- ▼ remove expenditure associated with meeting changes in OH&S standards and environmental standards that Wyong Council could not substantiate
- ▼ remove expenditure associated with recycled water operating expenditure<sup>63</sup>

<sup>62</sup> Wyong Council discontinued its washing machine rebate program from 1 October 2008.

<sup>63</sup> As Chapter 2 discussed, recycled water schemes are outside the scope of this review.

- ▼ include an efficiency savings target (see below).

The net effect of Halcrow's additions and subtractions was a small increase in forecast water operating expenditure but a reduction in total forecast operating expenditure.

### Sewerage

Halcrow also adjusted Wyong Council's forecast sewerage operating expenditure to:

- ▼ remove a growth factor that had been applied to operating expenditure that does not vary materially with changes in consumption
- ▼ remove expenditure associating with meeting changes to OH&S standards and environmental standards that Wyong Council could not substantiate
- ▼ include an efficiency savings target (see below).

The net effect Halcrow's adjustments was a small increase in the forecast sewerage operating expenditure and, as mentioned above, a reduction in forecast total operating expenditure.

### Stormwater drainage

IPART has not previously set a specific stormwater drainage charge for Wyong Council, as the Council has not separately identified stormwater drainage expenditure. Rather, the operating costs associated with stormwater drainage services were funded from water and sewerage operating expenditure, and IPART ensured that Wyong Council's water and sewerage charges reflected the costs of providing stormwater drainage services.

However, for the 2009 price review, IPART required Wyong Council to separately identify its forecast stormwater drainage operating expenditure. Halcrow adjusted this forecast expenditure to:

- ▼ remove a portion of corporate overhead operating expenditure that had been incorrectly assigned to stormwater drainage operating expenditure
- ▼ include an efficiency savings target (see below).

### Efficiency savings targets

Halcrow noted that although Wyong Council stated in its submission that it had included efficiency savings in its forecast operating expenditure, it had not quantified these savings. Halcrow ascertained from Wyong Council that the efficiency savings were 1 per cent for all operating expenditure in each year. However, Halcrow found that for water operating expenditure, the Council had only applied the efficiency saving to the labour cost component.

Halcrow considered that Wyong Council has the potential to make efficiency savings of at least 1 per cent of its total forecast operating expenditure in the first year of the determination period, and should be able to achieve higher efficiency savings over time. Therefore, Halcrow recommended efficiency savings targets of 1 per cent in the first year (which is to be maintained in the second year) and an additional 0.25 per cent in the third year (to be maintained in the fourth year). (See Table 8.6.)

**Table 8.6 Wyong Shire Council: The Council's proposed and Halcrow's recommended efficiency savings in operating expenditure**

	Efficiency %			
	2009/10	2010/11	2011/12	2012/13
Wyong Council proposed	1	1	1	1
Halcrow recommended	1	1	1.25	1.25

**Note:** Percentages are totals for each year and are not cumulative.

**Source:** Halcrow Pacific Pty Ltd, *Review of Capital and Operating Expenditure for Wyong Shire Council Final Report*, November 2008.

## 8.4 Stakeholders' submissions

While no stakeholder submissions commented on Wyong Council's forecast operating expenditure, several made suggestions that if implemented would necessitate increases in the Council's operating expenditure. These suggestions included that the Council provide payment assistance vouchers to low-income households in financial stress, water audits to customers, and no-interest loans for low-income households to purchase water efficient products. In most cases, the suggested initiatives were not costed, and there was no indication of how they could be funded.

The Public Interest Advocacy Centre argued that any carbon tax should be borne in part by Wyong Council and in part by customers.

## 8.5 IPART's analysis

After carefully examining Wyong Council's forecast operating expenditure and Halcrow's recommendations on this expenditure, IPART remains concerned about the level of Wyong Council's corporate overheads and whether general council costs are being wrongly allocated to the water business. It considered three possible approaches for making its draft decision on the revenue required for operating expenditure:

1. accepting Halcrow's recommendations on the Council's efficient level of forecast operating costs
2. using the amount of revenue for operating expenditure IPART allowed for in making its 2006 Determination, and indexing this amount for inflation

3. calculating Wyong Council's total revenue requirement for operating expenditure over the determination period by benchmarking it to its draft decision on Gosford Council's revenue requirement for operating expenditure on a per property basis.

IPART decided against the first approach, as it noted that Halcrow had encountered difficulties in tracing all the sources of Wyong Council's operating expenditure and was therefore required to make a significant number of judgements in making its recommendations.

IPART also decided against the second approach, as it was concerned that in attempting to moderate price impacts on customers under the 2006 Determination it may have erred on the low side when assessing Wyong Council's operating expenditure requirements between 2006/07 and 2008/09. As Table 8.7 below shows, IPART's final decision at the 2006 Determination on operating expenditure was equal to or greater than that recommended by Atkins/Cardno but less than that recommended by Halcrow/ MMA. It is important that for the 2009 Determination IPART does not inadequately fund Wyong Council's operations and thereby place it under financial stress.

**Table 8.7 Wyong Shire Council: Comparison of the Council's forecast, consultants' recommended, and IPART's final decision on revenue required for operating expenditure with the Council's actual expenditure over the 2006 determination period (\$2008/09)**

	2006/07	2007/08	2008/09
Wyong Council forecast	42.0	43.5	43.8
Atkins/Cardno recommended	30.8	31.6	33.0
Halcrow/MMA recommended	33.3	34.7	35.0
IPART final decision	31.7	33.0	33.1
Wyong Council actual	55.3	44.7	48.1

IPART decided to use the third approach, calculating Wyong Council's total revenue requirement for operating expenditure for 2009/10 to 2012/13 by benchmarking it to its draft decision on Gosford Council's total revenue requirement for operating expenditure on a per property basis. In IPART's view, Wyong Council's forecast operating expenditure is substantially above what would be expected of an efficient water utility. However, it is reasonably satisfied that its draft decision on Gosford Council's revenue requirement for operating expenditure represents an efficient level of expenditure. For example, it notes when calculated on a per property basis, Gosford Council's operating costs are approximately the same as those of Sydney Water Corporation. In addition, since Gosford and Wyong Council's water businesses are very similar in size and scope, IPART considers they are very likely to have similar efficient operating costs per property.

Given the above, IPART concludes that calculating Wyong Council's revenue requirement for operating expenditure by benchmarking it to Gosford Council's on a per property basis is an appropriate approach that will minimise the risk of it either



over- or under-estimating the Council's revenue requirement. The methodology IPART used to make this calculation involved:

- ▼ taking Halcrow's recommended total efficient operating expenditure for Gosford Council and dividing it by the number of customer connections in this council's area of operations, to derive an average operating cost per property for Gosford Council
- ▼ multiplying this figure by the number of customer connections in Wyong Council's area of operations, to derive Wyong Council's total efficient operating expenditure for the period from 1 July 2009 to 30 June 2013.

This methodology and IPART's resulting draft decision on Wyong Council's revenue requirement for operating expenditure are shown in Table 8.8.

**Table 8.8 Wyong Shire Council: IPART's methodology for determining the Council's revenue requirement for operating expenditure for 2009/10 to 2012/13 (\$2008/09)**

	2009/10	2010/11	2011/12	2012/13	Total
Gosford Council: Halcrow recommended total efficient operating costs (\$m)	40.3	40.6	40.1	39.9	160.9
Gosford Council: Customer connections (number)	67,789	68,196	68,605	69,017	
Gosford Council: Operating cost per property (\$)	594	596	584	578	
Wyong Council: Customer connections (number)	63,215	64,210	65,205	66,200	
Number of customer connections multiplied by Gosford Council's operating cost per property (\$m)	37.6	38.2	38.1	38.3	152.1
<b>Wyong Council: IPART draft decision on revenue required for operating expenditure (\$m)</b>	<b>37.6</b>	<b>38.2</b>	<b>38.1</b>	<b>38.3</b>	<b>152.1</b>

**Note:** Column totals may not sum due to rounding.

**Source:** Wyong Council submissions, Halcrow Pacific Pty Ltd, *Review of Capital and Operating Expenditure for Wyong Shire Council Final Report*, November 2008, IPART, *Prices of Water Supply, Wastewater and Stormwater Services Final Determination*, May 2006.

IPART's draft decision allows for average annual operating expenditure of \$38 million (\$2008/09) over the 2009 determination period. This is 13 per cent lower than the Council's forecast average annual operating expenditure and 5 per cent lower than Halcrow's recommended forecast efficient operating costs over this period. However, it is an average of 17 per cent higher than the operating expenditure IPART allowed for in the 2006 Determination, and 11 per cent higher than Halcrow/ MMA recommended for the 2006 Determination.

To allocate the revenue required for operating expenditure among the corporate overhead, water, sewerage and stormwater drainage categories, IPART deducted the

difference between Halcrow's recommended and IPART's draft decision on total operating expenditure for each year from Wyong Council's forecast corporate overhead expenditure for each year. The results of this calculation are shown on Table 8.9.

**Table 8.9 Wyong Shire Council: operating expenditure (\$million, 2008/09)**

	2009/10	2010/11	2011/12	2012/13	Total
Wyong Council proposed	43.3	43.7	44.5	44.1	175.6
Halcrow's recommended	38.3	40.2	41.1	41.0	160.6
IPART draft decision					
- Corporate	8.9	7.7	6.7	7.0	30.3
- Water	16.1	17.6	18.1	17.7	69.5
- Sewerage	11.6	11.9	12.2	12.4	48.1
- Drainage	1.0	1.0	1.0	1.1	4.1
Total operating expenditure	<b>37.6</b>	<b>38.2</b>	<b>38.1</b>	<b>38.3</b>	<b>152.1</b>

**Note:** Column totals may not sum due to rounding. Total operating expenditure includes the efficiency allowance.

**Source:** Wyong Council submissions and Halcrow Pacific.

## 9 Wyong Council: revenue required for capital investment

As Chapter 3 discussed, the revenue required for capital investment comprises two cost blocks: an allowance for a return **on** capital, and an allowance for a return **of** capital (or regulatory depreciation). Together, these allowances make up nearly 50 per cent of Wyong Council's total notional revenue requirement and so have a significant impact on prices. IPART determined a value for each of these allowances by taking three steps:

- ▼ calculating a value for the Council's Regulatory Asset Base (RAB) in each year of the determination period, taking into account a range of factors, including its findings on the efficiency and prudence of past and forecast capital expenditure
- ▼ deciding on an appropriate rate of return for Wyong Council, and multiplying the annual value of the RAB by this rate (to give the allowance for a return on assets)
- ▼ deciding on the appropriate depreciation allowance based on the value of the RAB and the useful life of the assets in the RAB.

The section below summarises IPART's draft decisions on the allowances for a return on capital and regulatory depreciation. The following sections explain how IPART reached these decisions by discussing each of the above steps.

### 9.1 Summary of IPART's draft decisions on the allowances for a return on assets and regulatory depreciation

Draft decision

- 13 IPART's draft decisions are that the allowance for a return on assets for Wyong Council is as shown in Table 9.1, and the allowance for regulatory depreciation is as shown in Table 9.2.

**Table 9.1 Wyong Shire Council: IPART's draft decision on the allowance for a return on assets (\$million 2008/09)**

	2009/10	2010/11	2011/12	2012/13	Total
IPART draft decision (based on WACC of 7.0%)	26.1	28.0	29.0	29.8	112.8
Wyong Council proposed	4.2	4.9	5.0	5.1	19.2
Difference	21.9	23.1	24.0	24.7	93.6
% difference	521%	471%	479%	484%	487%

**Note:** Wyong Council's proposed return on assets has been estimated by IPART based on information provided in its submission as it did not submit a price proposal based on the traditional building block approach. The implicit rate of return in the Wyong Council submission was approximately 2.0 per cent per annum.

**Source:** Wyong Shire Council submission to IPART, September 2008.

**Table 9.2 Wyong Shire Council: IPART's draft decision on the allowance for regulatory depreciation (\$million 2008/09)**

	2009/10	2010/11	2011/12	2012/13	Total
IPART draft decision	4.8	5.1	5.3	5.5	20.7
Wyong Council proposed	2.8	3.2	3.3	3.4	12.7
Difference	2.0	1.9	2.0	2.1	8.0
% difference	71%	60%	61%	61%	63%

**Note:** Wyong Council's proposed depreciation allowance has been estimated by IPART based on information provided in Wyong's Submission. Wyong Council did not submit a price proposal based on the traditional building block approach.

**Source:** Wyong Shire Council submission to IPART, September 2008.

Wyong Council did not submit a price proposal based on the building block approach. Therefore, IPART estimated the Council's proposed allowances for a return on assets and regulatory depreciation based on the information supplied in its submission. As the tables above show, IPART's draft decisions on these allowances are substantially higher than implied by the Council's price proposal. The primary reason for this is that in making its draft decisions, IPART applied a rate of return of 7.0 per cent to Wyong Council's RAB, whereas the Council's price proposal implied a rate of return of only 2.0 per cent. IPART considers it important that the Council earn a rate of return similar to other water businesses in NSW, to ensure that its prices reflect the full, efficient costs of supplying its water, sewerage and stormwater drainage services, including the opportunity costs of capital invested in the business.

However, IPART also recognises that its draft decisions on the revenue the Council requires for capital investment will have a significant impact on customer bills. IPART has sought to mitigate these impacts by deferring recovery of Wyong specific growth assets when calculating the value of Wyong Council's RAB over the determination period. This will defer payment of the rate of return and depreciation on capital expenditure to cater for forecast population growth in the Council's area of operations until those new customers are in place and can contribute to the recovery of this expenditure.

## 9.2 Calculating the annual value of Wyong Council's RAB over the determination period

To determine the value for the allowance for a return on assets, IPART first calculated the value of Wyong Council's RAB in each year of the determination period. It established the methodologies for calculating the value of the RAB at the start of the determination period (the opening value of the RAB), and for rolling forward the RAB to the end of the determination period.

### 9.2.1 Methodologies for establishing opening value of the RAB and rolling forward the RAB

To establish the opening value of Wyong Council's RAB (ie, as at 1 July 2009), IPART:

- ▼ rolled forward the 1 July 2006 RAB to 30 June 2009 on the basis of actual prudent capital expenditure (related to both the existing system and for growth) over this period<sup>64</sup>
- ▼ deducted the actual capital contributions, from developers or government (for example, subsidies from the Commonwealth Government), from the RAB each year for the 2006/07 and 2007/08 years and estimated capital contributions for 2008/09<sup>65</sup>
- ▼ deducted regulatory depreciation as allowed for in the 2006 Determination<sup>66</sup>
- ▼ deducted actual asset disposals for 2006/07 and 2007/08 and estimated disposals for 2008/09
- ▼ indexed the annual closing regulatory asset base for actual/forecast inflation (assuming that half the capital expenditure and disposals occurred at the beginning of the year (and therefore receive a full year of indexation) the other half occurred at the end of the period (and therefore is not indexed)).

<sup>64</sup> Given that actual expenditure for this year is not fully known at the time of the Determination, IPART has used the estimated expenditure for the 2008/09 year. This estimate has been assessed by IPART as part of the review and adjusted where appropriate. At the next review, the RAB will be adjusted to reflect the difference between this estimate and actual expenditure for 2008/09.

<sup>65</sup> The effect of this is to remove investments made by developers from the RAB. This ensures that Gosford Council only earns a return on investments that it funds.

<sup>66</sup> Regulatory depreciation refers to the depreciation amounts allowed for in the 2006 Determination. IPART uses regulatory depreciation, rather than actual depreciation, because the impact of any over/under-expenditure of capital expenditure during the determination period is limited to the return it earns on its expenditure. This provides agencies with an incentive not to overestimate their forecast expenditure at price reviews.

To roll forward the RAB to the end of the 2009 determination period (ie, 30 June 2013), IPART:

- ▼ added the forecast efficient capital expenditure to the closing value of the RAB for the previous year
- ▼ deducted forecast capital contributions, from developers or government (eg, subsidies from the Commonwealth Government)<sup>67</sup>
- ▼ deducted regulatory depreciation
- ▼ deducted forecast disposals of assets
- ▼ indexed the annual closing RAB for forecast inflation<sup>68</sup>.

Both these methodologies are the same as those IPART used in making the 2006 Determination.

### **9.2.2 The level of past capital expenditure to be incorporated into the opening value of the RAB**

To apply the above methodology for establishing the opening value of the RAB, IPART reviewed Wyong Council's actual capital expenditure over the period since the 2006 Determination (past capital expenditure) to decide whether this capital expenditure was prudent and efficient and should therefore be included in the RAB. As part of this review, IPART considered

- ▼ the information Wyong Council provided in its submission on its past capital expenditure
- ▼ Halcrow's review and recommendations on this expenditure
- ▼ comments in stakeholders' submissions on Wyong Council's past capital expenditure.

#### **Wyong Council's submission**

The information in Wyong Council's submission indicates that the Council's actual capital expenditure over the 2006 determination period differed significantly from that allowed for by IPART in making the 2006 Determination (Table 9.3).

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<sup>67</sup> Depending on the rate of development, differences may arise between the actual developer charge receipts and those forecast in the Development Service Plans.

<sup>68</sup> Similar to the approach of establishing the opening RAB, IPART assumes that half the capital expenditure and disposals occur at the beginning of the year (receiving a full year of indexation), with the remainder occurring at the end of the year.

**Table 9.3 Wyong Shire Council: Actual capital expenditure 2006/07 to 2008/09 compared to that allowed for in 2006 Determination (\$million 2008/09)**

	2006/07	2007/08	2008/09
Expenditure allowed for in 2006 Determination	60.5	24.6	18.7
Actual expenditure	46.0	23.9	72.6
Difference	-24%	-3%	288%

**Source:** 2006 Determination (inflated to \$2008/09) and Wyong Council AIR (IPART inflated to \$2008/09).

Wyong Council indicated in the first year of the determination period it underspent due to a re-evaluation of its capital project priorities. However, in the final year of the determination period it overspent by 288 per cent (compared to the capital expenditure allowed for in the 2006 determination) due to the significant level of capital works it undertook to combat the drought conditions.<sup>69</sup> Most of these capital works were directed at increasing Wyong Council's water supply, and several projects were undertaken concurrently. The major projects contributing to the overspend were the Hunter Water Connection and Groundwater Extraction Projects, both of which are JWS projects. (Box 9.1 provides more detail on these projects.)

### **Box 9.1 Wyong Council: Major capital projects in 2006/07 to 2008/09**

#### **Hunter Water Connection**

The Hunter Water Connection was originally designed to provide 6 ML/day of treated water from the Hunter Water Corporation (HWC) area to the Gosford/Wyong area. As the drought worsened, the project was expanded so it could supply up to 33ML/day to improve the security of supply, and allow Hunter Water to draw treated water into its system from the Gosford/Wyong area in times of need.<sup>a</sup>

The original cost of the project reported to IPART was \$17.97 million. However, the design resulted in the actual cost reaching \$36.23 million.<sup>b</sup> These costs were shared equally between Gosford and Wyong Councils. The Federal Government contributed a WaterSmart grant of \$4.8 million for this project.

#### **Groundwater Extraction Projects**

The Gosford and Wyong Councils' Water Authority conducted a widespread investigation of the Gosford/Wyong region to determine the availability of reliable groundwater supplies. In total, 110 test boreholes were drilled across the region and 7 separate bore fields (producing a reliable yield of approximately 7 ML/day) were identified.

The 2006 Determination had allowed \$25.3 million (2008/09) for these projects. However, the actual cost was 21 per cent higher at \$30.7 million. The cost increase was due to an increase in the scope of the project to obtain a yield of 7ML/d and the higher than expected cost of environmental monitoring.

<sup>a</sup> An operating arrangement was negotiated and a 20 year contract was agreed with Hunter Water.

<sup>b</sup> This is the Councils' share of the capital costs. Other project costs were borne by Hunter Water Corporation.

<sup>69</sup> Actual expenditure approximates IPART determined expenditure in 2007/08.

### Halcrow's review of past capital expenditure

IPART engaged Halcrow to review Wyong Council's past (and forecast) capital expenditure program and recommend whether these programs were prudent and efficient. IPART also asked Halcrow to have particular regard to:

- ▼ current and future service outcomes and performance requirements
- ▼ how Wyong Council manages the risks associated with asset failure or underperformance
- ▼ the clarity of drivers for capital expenditure
- ▼ minimising costs over the life of the assets.

Halcrow found that some of the Council's past capital expenditure may have been difficult to justify under normal circumstances. For example, Halcrow commented that the Hunter Water Connection was redesigned to increase its capacity after construction was started which added to the cost. Furthermore, it found that the Groundwater Extraction Projects were not a good investment in hindsight, and that the concurrent development of alternative water resource options had also increased the risk of redundant groundwater assets, particularly when cheaper alternative water resource options are available (such as through the Hunter Water Connection).

However, Halcrow concluded that, given the severity of the water supply crisis facing the Central Coast at the time, all Wyong Council's capital expenditure during the 2006 determination was generally prudent, although it may have been delivered at the expense of efficiency. On this basis, Halcrow recommended this expenditure be incorporated into the RAB.

### IPART's draft decision on past capital expenditure to be incorporated into the RAB

After considering Wyong Council's submission and Halcrow's report, IPART accepts Halcrow's finding that given the concerns about the impact of the drought on Wyong's water supply, Wyong Council's capital expenditure for 2006/07 to 2008/09 was generally prudent. It also accepts Halcrow's recommendation that this expenditure be incorporated into the RAB.

However, IPART intends to re-examine the issue of whether assets that may have once been considered prudent but subsequently cease to provide any substantial benefit should be removed from the asset base over the 2009 determination period.



## Draft decision

- 14 IPART's draft decision is to include the past capital expenditure shown in Table 9.4 in the opening value of the RAB.

**Table 9.4 Wyong Shire Council: Draft decision on past capital expenditure to be included in the RAB (\$m 2008/09)**

	2006/07	2007/08	2008/09	Total
Water	33.8	17.1	48.3	99.1
Wastewater	6.8	2.9	15.4	25.1
Stormwater drainage	5.5	4.0	8.9	18.3
<b>IPART total</b>	<b>46.0</b>	<b>23.9</b>	<b>72.6</b>	<b>142.6</b>

**Note:** Totals may not add due to rounding.

### 9.2.3 The level of forecast capital expenditure to be included when rolling forward the RAB

To decide how much forecast capital expenditure should be incorporated when rolling forward the RAB to the end of the 2009 determination period, IPART also considered Wyong Council's submission, Halcrow's review and stakeholder comments.

#### Wyong Council's submission on forecast capital expenditure

Wyong Council proposes a large capital program over the next four years, with most expenditure in 2009/10. Many of the major water projects are JWS projects, so these will be jointly funded by Gosford City Council. They include:

- ▼ the Mardi to Mangrove Link, and
- ▼ the Mardi suite of works:
  - Mardi Dam Transfer System (continued from the previous determination)
  - Mardi High Lift Pump Station
  - Mardi Spillway and Bridge. (Box 9.2 provides a brief overview of these projects.)

Wyong Council also proposes to undertake a range of other projects related to its water, sewerage and stormwater services. These include:

- ▼ the Mardi to Warnervale Trunk Main
- ▼ Kiar/Bushells Reservoir
- ▼ Porter's Creek stormwater bypass/environmental flow substitution
- ▼ the Gorokan to Norah Head Growth Trunk Main
- ▼ the Entrance to North Entrance Growth Trunk Main
- ▼ Wyong South Sewer Aeration Tank

- ▼ Charmhaven Sewer Aeration Tank. (Box 9.3 provides an outline of each of these projects.)

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### **Box 9.2 Wyong Council: Proposed JWS capital projects in 2009 to 2012/13**

#### **Mardi to Mangrove Link (\$110.0 m)**

This 21 kilometre transfer main will provide a link between Mardi Dam (which has a storage capacity of 7.4 GL and is often full) to Mangrove Creek Dam (which is an off-river storage with a capacity of 190 GL). The project also includes constructing two large capacity pumping stations to lift the water approximately 70 metres from Mardi Dam to the Mangrove Creek Dam. In addition there will be a 2.2km rising main from the Lower Wyong River to Mardi Dam. The total cost of the project is estimated at \$110.0 million, of which the Federal Government will provide funding of \$80.3 million. The Authority has already spent \$13.3 million dollars on the project.

#### **Mardi suite of works (\$50.2 m)**

This group of projects is designed to enhance the storage and transport of water from Mardi Dam to the Mardi water treatment plant and the Mardi to Mangrove pumping station. The project will also increase pumping capacity from the Mardi water treatment plant to the Wyong Council and Gosford Council distribution systems. The total cost of the projects is estimated at \$50.2 million, of which \$3.2 million has already been spent.

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### **Box 9.3 Wyong Council: Proposed Council capital projects for 2009/10 to 2012/13**

#### **Mardi to Warnervale Trunk Main (\$16.3m)**

This major trunk main from Mardi Dam will service the satellite development area of Warnervale.<sup>a</sup> When completed, the Warnervale Town Centre and surrounding areas will be home to 40,000 people. This is currently a greenfield site and there is no water supply. This project needs to proceed for development to commence.

#### **The Kiar/Bushells Reservoir (\$2.6m)**

This reservoir will service the new Warnervale Town Centre and development in North Wyong. The construction of the reservoir will help maintain water pressure in periods of high demand and allow the Mardi to Warnervale trunk main to be constructed to a smaller scale.

#### **Porter's Creek Stormwater Bypass/Environmental Flow Substitution (\$10.7m)**

Porters Creek wetland is one of the largest wetlands on the coast. This project, which is part of Waterplan 2050,<sup>b</sup> will divert stormwater from the wetland through natural filtration and release water below the Lower Wyong Weir. It is required to meet environmental standards, and will also provide an acceptable substitute for environmental flows which are released downstream of Lower Wyong Weir, and allow more water (of better quality) to be extracted upstream.

#### **Gorokan to Norah Head Growth Trunk Main (\$3.7m)**

This project is necessary for the redevelopment of Toukley and Gorokan. Development in the area is already putting a strain on the existing system and the new main is necessary to avoid water pressure worsening in this growth area.

#### **The Entrance to North Entrance Growth Trunk Main (\$3.7m)**

This project is necessary for future development in the North Entrance area. It may be possible to delay this project or downscale the size of the pipeline. However downscaling will likely lead to higher total costs in the future.

#### **Wyong South Sewer Aeration Tank (\$12.4m)**

The Wyong South Sewerage Treatment Plant (STP) is operating beyond its design capacity. It has a design capacity of 48,000 equivalent persons (EP). It is currently servicing 60,000 EP. This project will increase capacity to 72,000 EP.

#### **Charmhaven Sewer Aeration Tank (\$12.4m)**

The Charmhaven STP has a design capacity of 40,000 EP. The plant is currently servicing 30,000 EP. The project is an augmentation to increase plant capacity to 60,000 EP to cater for the planned development in Warnervale.

#### **Other projects**

Wyong Council also proposes additional capital expenditure on its Toukley effluent re-use scheme. This scheme was initially developed as a drought alleviation measure to conserve potable water and maintain council owned infrastructure, such as playing fields and ovals. The plant now needs to be upgraded to meet new health standards and meet new demand for recycled water. The Council also proposes significant expenditure on the Toukley STP Inlet Works to improve the efficiency of the plant.

<sup>a</sup> The NSW Government assumed planning power for Warnervale Town Centre as a significant state site (SSS).

<sup>b</sup> WaterPlan 2050 Options Report for the long term water supply strategy, Gosford/Wyong Councils' Water Authority July 2007.

As Table 9.5 and Figure 9.1 show, Wyong Council's forecast capital expenditure is significantly higher than the capital expenditure IPART allowed for in making the 2006 Determination, particularly in 2008/09. Wyong Council submitted that one of the main drivers of its proposed capital expenditure program is the proposed JWS projects such as the Mardi to Mangrove Link. A significant portion of the expenditure on these projects will be recovered through Commonwealth Government grants.<sup>70</sup>

Another main driver is the forecast population growth of around 2.0<sup>71</sup> per cent per annum in the Wyong Shire. Much of this growth will occur in the satellite centre of Warnervale. Wyong Council submitted that \$117.5 million of its forecast capital expenditure of \$134.5 million in 2009/10 is growth-related, and can be recovered through capital contributions from developers over time.

**Table 9.5 Wyong Shire Council: Actual and forecast capital expenditure 2006/07 to 2012/13 (\$ million 2008/09)**

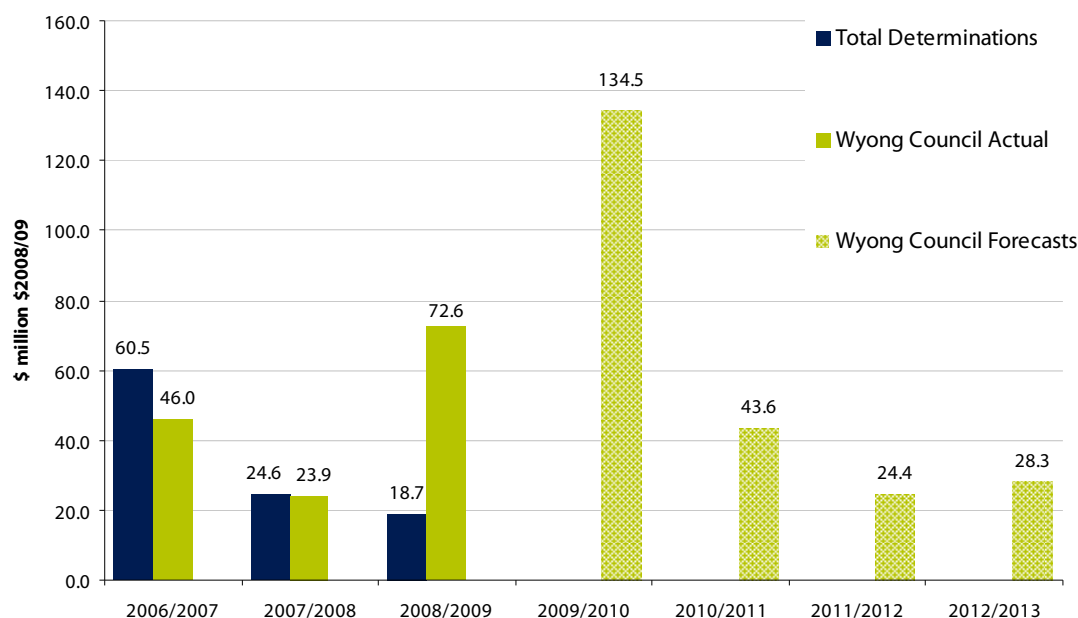
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Water	33.8	17.1	48.3	93.4	25.7	7.1	10.7
Sewerage	6.8	2.9	15.4	32.0	10.0	9.3	9.4
Stormwater drainage	5.5	4.0	8.9	9.1	7.9	8.0	8.1
Total	<b>46.0</b>	<b>23.9</b>	<b>72.6</b>	<b>134.5</b>	<b>43.6</b>	<b>24.4</b>	<b>28.3</b>
% variation on 2006 Det.	-24%	-3%	288%				

**Source:** Wyong Council AIR (IPART inflated to \$2008/09) and Wyong Council submission, September 2008 as adjusted by Halcrow. 2006 Gosford City Council and Wyong Shire Council Price Determination (inflated to \$2008/09).

<sup>70</sup> As IPART deducts revenue received from government grants when calculating the value of the RAB, this expenditure is not recovered through prices.

<sup>71</sup> This equates to a growth in properties connected to Wyong Shire Council's network of 1.6 per cent per annum.

**Figure 9.1 Wyong Shire Council: Actual and forecast capital expenditure compared to capital expenditure allowed for under 2006 Determination (\$ million 2008/09)**



**Data source:** 2006 Gosford City Council and Wyong Shire Council Price Determination (inflated to \$2008/09). Wyong Council 2008 AIR. Wyong Council submission, September 2008, Halcrow Pacific Pty Ltd, *Review of capital and operating expenditure for Wyong Shire Council – Final Report*, December 2008.

#### Halcrow's review of forecast capital expenditure

To review the efficiency and prudence of Wyong Council's forecast capital expenditure program, Halcrow undertook a detailed examination of a representative sample of projects, including some currently being delivered and some proposed for delivery during the 2009 determination period. It also reviewed the components of the Council's forecast capital program. It found that most of the forecast program was efficient and prudent. It recommended that the costs associated with the inefficiencies it identified be deducted from the Council's forecast capital expenditure.

Halcrow also recommended that the Council's forecast capital expenditure be further reduced by incorporating some efficiency savings targets in the last three years of the determination period. Halcrow noted that Wyong Council has had difficulties in delivering capital projects to budget in the past, but is in the process of developing a sound asset management framework and identifying ways in which programs of work can be delivered more efficiently. Given this, Halcrow considers the Council should be able to achieve capital efficiency savings over the 2009 determination period. It recommended that the Council's forecast capital expenditure be adjusted to include an efficiency savings target of 1 per cent in 2010/11 rising to a cumulative target of 3.5 per cent in 2012/13 (Table 9.6).

**Table 9.6 Wyong Shire Council: Halcrow's recommended capital efficiency savings targets**

	2009/10	2010/11	2011/12	2012/13
Total efficiency target (%)	0	1.0	2.0	3.5
Total efficiency target (\$2008/09 )	0	\$417,000	\$487,000	\$989,000

#### Stakeholder comments

The Public Interest Advocacy Centre noted that Wyong Council had not delivered on its proposed capital expenditure program for the 2006 determination period, and questioned whether IPART should disallow some of the forecast expenditure for the 2009 period to acknowledge the risk of this happening again.

The Total Environment Centre submitted that the Mardi to Mangrove Link would not be necessary if Wyong Council invested more in recycling, stormwater harvesting and demand management. However, it also noted that the Mardi to Mangrove Link was preferable to the construction of the Tillegra Dam or a permanent desalination plant.

IPART accepts the findings of Halcrow's review and has decided to adjust Wyong Council's forecast capital expenditure in line with Halcrow's recommendations, including the recommended efficiency savings.

In relation to forecast expenditure on JWS projects, IPART agrees the Mardi to Mangrove Link is the best available option for augmenting the Wyong Shire's water supply. In relation to the forecast expenditure on growth-related projects, IPART is satisfied that the Council's proposed capital expenditure on water and sewerage services in the Warnervale precinct needs to be undertaken now predominately for the benefit of future customers. Nevertheless, it is concerned about the impact of this growth-related expenditure on the prices that will be paid by existing customers over the 2009 determination period. To moderate this impact, it has decided to make an additional adjustment to the value of the RAB, that is to defer recovery of a return on capital and depreciation of this growth-related expenditure for the next 4 years. (This issue is discussed further in section 9.2.5 below.)

#### Draft decision

- 15 IPART's draft decision is to include the forecast capital expenditure shown in Table 9.7 when rolling forward Wyong Council's RAB to the end of the 2009 determination period.

**Table 9.7 Wyong Shire Council: Draft decision on forecast capital expenditure to be included when rolling forward the RAB (\$million 2008/09)**

	2009/10	2010/11	2011/12	2012/13	Total
<b>Wyong Council proposed</b>					
Water	93.4	25.7	7.1	10.7	<b>136.9</b>
Sewerage	32.0	10.0	9.3	9.4	<b>60.7</b>
Stormwater drainage	9.1	7.9	8.0	8.1	<b>33.1</b>
<b>Wyong Council total</b>	<b>134.5</b>	<b>43.6</b>	<b>24.4</b>	<b>28.3</b>	<b>230.8</b>
<b>Halcrow recommended</b>					
Water	92.9	23.6	6.9	10.3	<b>133.7</b>
Sewerage	32.0	9.9	9.1	9.1	<b>60.1</b>
Stormwater drainage	9.1	7.8	7.9	7.8	<b>32.6</b>
<b>Halcrow total</b>	<b>134.0</b>	<b>41.3</b>	<b>23.9</b>	<b>27.3</b>	<b>226.5</b>
<b>IPART draft decision</b>					
Water	92.9	23.6	6.9	10.3	<b>133.7</b>
Sewerage	32.0	9.9	9.1	9.1	<b>60.1</b>
Stormwater drainage	9.1	7.8	7.9	7.8	<b>32.6</b>
<b>IPART total</b>	<b>134.0</b>	<b>41.3</b>	<b>23.9</b>	<b>27.3</b>	<b>226.5</b>

**Note:** Totals may not add due to rounding.

#### 9.2.4 Other adjustments required when rolling forward the RAB

To apply the methodologies for establishing the opening value of the RAB and rolling forward the RAB to the end of the determination period (see section 9.2.1), IPART calculated the value of any deductions to the RAB to account for:

- ▼ past and forecast capital contributions from developers or government
- ▼ past and forecast asset disposals
- ▼ regulatory depreciation allowed for in the 2006 Determination and to be allowed for in the 2009 determination period
- ▼ past and forecast inflation.

In addition, as the section above noted, IPART decided to make an additional adjustment to the value of the RAB, to defer recovery of the forecast growth-related capital expenditure. Each of these adjustments is discussed below.

### Adjustments to account for capital contributions

'Capital contributions' refers to the revenue Wyong Council receives from developers in accordance with IPART's *Determination No 9, 2000, Developer Charges from 1 October 2000*, and from other sources such as Commonwealth Government grants.

IPART's draft decision on the adjustments to the RAB to account for capital contributions are in line with Wyong Council's reported information on the past and forecast levels of cash contributions from developers and other sources.

#### Draft decision

- 16 IPART's draft decision is to deduct the amounts shown on Table 9.8 from the value of the RAB to account for capital contributions from developers and government grants.

**Table 9.8 Wyong Shire Council: Draft decision on capital contributions from developers and government grants to be deducted from the RAB (\$2008/09 millions)**

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Water	2.9	3.4	2.2	2.3	2.3	2.3	2.3
Wastewater	1.4	1.4	1.4	1.4	1.5	1.5	1.5
Stormwater drainage	0.5	2.2	2.3	2.3	2.4	2.4	2.5
Government grants	2.7	3.4	12.7	30.6	6.4	0.0	0.0
<b>Total</b>	<b>7.6</b>	<b>10.4</b>	<b>18.6</b>	<b>36.6</b>	<b>12.5</b>	<b>6.2</b>	<b>6.3</b>

**Source:** Wyong Shire Council 2008 AIR.

### Adjustments to account for the disposal of assets

Asset disposals over time, both past and future, need to be deducted from the RAB. In the past, IPART has used the asset disposals as recorded on Wyong Council's Profit and Loss Statement, adjusted by the proportion of the regulatory value of the asset disposals to that of the book value of the assets. For this determination, Wyong Council submitted that it does not intend to dispose of any assets and therefore no adjustment will be made.

### Adjustments to account for regulatory depreciation

The RAB is adjusted each year to account for regulatory depreciation.<sup>72</sup> In relation to past depreciation to be deducted from the opening RAB, IPART has used the amounts allowed in the 2006 Determination. In calculating future depreciation, IPART has used the straight-line depreciation method.

<sup>72</sup> An allowance is made for this within the revenue required for capital investment. This is discussed further in section 9.4.



Draft decision

- 17 IPART's draft decision is to deduct the amounts shown on Table 9.9 to account for regulatory depreciation.

**Table 9.9 Wyong Shire Council: Regulatory depreciation to be deducted from RAB (\$ million 2008/09)**

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Water	2.0	2.2	2.2	2.4	2.6	2.7	2.7
Sewerage	1.8	1.9	1.9	2.2	2.3	2.3	2.4
Stormwater drainage	0.4	0.4	0.3	0.3	0.4	0.5	0.5
<b>Total</b>	<b>4.1</b>	<b>4.4</b>	<b>4.4</b>	<b>4.9</b>	<b>5.2</b>	<b>5.4</b>	<b>5.6</b>

### 9.2.5 Adjustments for deferred recovery of growth related capital expenditure

There is a significant amount of capital investment being undertaken over the 2009 determination period. Much of this investment is necessitated by development in the growth centre of Warnervale<sup>73</sup> and redevelopment of other centres in Wyong Shire. While the infrastructure needs to be built now in order to accommodate a large increase in the population, increases in the population will occur incrementally over a long period of time.

As a general rule, costs should be recovered from those who benefit from particular items of capital expenditure. In the case of Wyong Council's growth related assets these are required to service future rather than current residents of Wyong. However, the application of IPART's normal building block approach would result in a substantial price increase for current customers who are not the main beneficiaries.

IPART has therefore, developed an alternative approach that enables more of the costs of the growth assets to be recovered in future periodic charges and developer contributions rather than in the current periodic charges. This approach will apply to all of Wyong Council's growth assets other than those constructed under the joint water scheme with Gosford Council. The relevant assets are shown in Table 9.10.

**Table 9.10 Wyong Council deferred recovery growth assets (\$2008/09 million)**

	2009/10	2010/11	2011/12	2012/13	<b>Total</b>
Water	37.1	4.8	2.7	1.9	46.5
Sewerage	26.1	5.5	3.7	3.7	39.0
Stormwater drainage	3.2	2.0	2.6	2.8	10.6
<b>Total</b>	<b>66.4</b>	<b>12.3</b>	<b>9.0</b>	<b>8.4</b>	<b>96.1</b>

**Note:** Water growth assets specified for deferred recovery do not include JWS assets.

<sup>73</sup> Warnervale Town Centre and the surrounding area is planned to eventually accommodate 40,000 people.

IPART's alternative approach seeks to achieve the following:

1. Including all efficient capital expenditure into the RAB.
2. Identifying the capital expenditure undertaken to service population growth.
3. Recovering a commercial rate of return and depreciation each year on all assets other than the growth related assets specified.
4. Recover a commercial rate of return and depreciation on the growth related assets over time as the population grows thus ensuring, that in net present value terms, Wyong Council is no worse off.
5. In the meantime ensure that Wyong Council receives sufficient revenue to cover all its financial costs each year.

These goals will be achieved by:

- ▼ Adding capital expenditure to the RAB when it occurs.
- ▼ Subtracting developer charges from the RAB when they are received.
- ▼ Making an assessment in each determination period of the extent to which the growth capital expenditure benefits customers in that determination period. This estimate will be based on the number of customer connections in that period.
- ▼ Setting prices to recover (in addition to other costs) depreciation and the rate of return on those assets that benefit existing customers.
- ▼ Adding the remainder of depreciation and the rate of return to the asset base to be recovered from future customers.
- ▼ Continuing this process until periodic charges recover depreciation and the rate of return on the asset base.

The following hypothetical example, in Box 9.4, describes how the process works.

**Box 9.4 Deferred recovery growth capital expenditure hypothetical example**

1. IPART decides to defer recovery of a return on capital and depreciation of all \$96.1 million (\$2008/09) of Wyong Council specific growth related capital expenditure undertaken between 1 July 2009 and 30 June 2013 to minimise the price impact on current customers. The deferred return on capital and depreciation for the four years amounts to \$17.16 million (\$2008/09)
2. IPART determines that the growth related capital expenditure undertaken will provide services to an additional 20,000 properties over time.
3. Over the four years of the determination the number of new customers in Wyong Council's network increases at approximately the forecast growth rate of 1.6 per cent per annum. This totals 4,000 new connections over the four years. It is also 20 per cent of the total number of new properties capable of being supplied by the \$96.1 million growth capital expenditure.
4. IPART will assess the amount of capital contributions Wyong Council received from developers over the 4 years of the 2009 to 2013 Determination. For this hypothetical example we assume that capital contributions total \$10 million dollars and they are all received at the end of the 2009-13 determination period
5. IPART will then add 20 per cent of the \$96.1million (\$19.22million) of deferred recovery assets minus \$10 million dollars of capital contributions (total of \$9.22 million) to the rest of the RAB that attracts a rate of return and depreciation. IPART will also add \$17.16 million of postponed return on capital and depreciation to the rest of the RAB that attracts a rate of return and depreciation.

Using the methodologies and draft decisions discussed above, IPART calculated the value of the RAB from which a rate of return on capital and depreciation will be immediately recovered in each year of the 2009 determination period to be as shown in Table 9.11 below.

**Table 9.11 Wyong Shire Council: Value of the RAB over the 2009 determination period (\$million, real 2008/09)**

	2009/10	2010/11	2011/12	2012/13
Water	195.5	208.3	218.6	220.1
Wastewater	140.9	161.4	163.6	166.6
Stormwater drainage	23.5	24.1	29.5	34.4
<b>Total</b>	<b>359.9</b>	<b>393.9</b>	<b>411.6</b>	<b>421.1</b>

**Note:** The values presented here are opening rather than closing RAB values. Totals may not add due to rounding.

### 9.3 Deciding on an appropriate rate of return

Once it calculated the value of Wyong Council's RAB over the determination period, IPART decided on an appropriate rate of return for the Council. It then multiplied the rate of return by the value of the RAB in each year of the determination period to calculate the allowance for a return on assets.

There are several approaches for deciding on an appropriate rate of return. As for previous reviews, IPART used the weighted average cost of capital (WACC) approach. It developed a range for the real pre-tax WACC for similar utilities in the water industry, then IPART made a judgement on the most appropriate rate of return for Wyong Council within this range.

In exercising its judgement, IPART considered Wyong Council's proposed rate of return and its own analysis of the implications of its chosen rate of return for customers, the Council's financial viability and economic efficiency.

### 9.3.1 Wyong Shire Council's proposed rate of return

Wyong Council did not explicitly propose a rate of return in its submission. Rather, the Council proposed a revenue requirement that would recover the cost of operating its water, wastewater and stormwater drainage system plus a return equivalent to tax equivalents.<sup>74</sup> IPART has calculated that the implicit rate of return from residuals is around 2 per cent per annum (real) on average over the determination period.

Wyong Council put the view that it should not earn a rate of return commensurate with the cost of capital for a benchmark water utility over the 2009 determination period. In reaching this view, the Council considered the socio-economic profile of its customer base.<sup>75</sup> Wyong Council considers that given the significant increase in water prices the community will face as a result of increased spending associated with the drought and other factors, it is inappropriate for it to earn a rate of return in excess of the tax equivalents in the short to medium term.

### 9.3.2 IPART's analysis and draft decision

Draft decision

**18 IPART's draft decision is that for the purposes of calculating the allowance for a return on assets, a real pre-tax WACC of 7.0 per cent will be applied.**

IPART recognises that under its draft determination, Wyong Council's customers will face a significant price increase, and much of this increase is due to its draft decision on the return on assets. IPART has tried to moderate price increases by allowing for an efficient level of operating expenditure (that is lower than the level recommended by Halcrow) and by deferring the recovery of return on capital and depreciation of growth-related assets to ensure that the Council's existing customers aren't unreasonably burdened with costs predominately incurred to service new customers.

<sup>74</sup> Wyong has based this proposal on the DWE Best Practice Management Guidelines that require that the dividend (rate of return) should be at least the equivalent of tax equivalents.

<sup>75</sup> Public Hearing, Metropolitan Water Price Review for Gosford and Wyong Councils, 14 November 2008, Gosford.

However, IPART needs to set prices that provide a commercial rate of return that adequately compensates water businesses for the capital they have invested in the business. To not cover the opportunity cost of capital distorts investment and may restrict Wyong Council's ability to fund infrastructure projects like the Mardi to Mangrove Link or new sewage treatment plants. Further, if IPART were to artificially set prices below the efficient level it would send the wrong price signal to customers and distort consumption patterns towards overuse of water.

In making its draft decision on an appropriate rate of return for Wyong Council, IPART considered the views of the Council, current regulatory and financial practice, its previous decisions, section 15 of the IPART Act and its own analysis. It calculated a range for the WACC using the parameters shown on Table 9.12 below. These parameters were based on market conditions averaged for the 20 days to 14 January 2009.

IPART recognises that there has been significant volatility in financial markets recently and there is likely to be continued volatility in the future. This has affected the quality of data underpinning the market-based parameters (the risk free rates, the resulting implied inflation forecast, and the debt margin). IPART has conducted preliminary analysis on these parameters and intends to finalise its position prior to its final determination.

**Table 9.12 Wyong Shire Council: Draft decision on the rate of return and the parameters IPART used to calculate the WACC**

WACC Parameters	Market value
Nominal risk free rate <sup>a</sup>	4.2%
Real risk free rate <sup>a</sup>	2.8% <sup>b</sup>
Inflation	1.3%
Market risk premium	5.5% - 6.5%
Debt margin <sup>a</sup>	1.2% - 3.6%
Debt to total assets	60%
Dividend imputation factor (gamma)	0.5 - 0.3
Tax rate	30%
Equity beta	0.8 - 1.0
Cost of equity (nominal post-tax)	8.6% - 10.7%
Cost of debt (nominal pre-tax)	5.4% - 7.7%
WACC range (real pre-tax)	5.9% - 8.6%
WACC (real pre-tax) point estimate	7.0%

<sup>a</sup> Reflects the average of the nominal risk free rate for the 20 days to 14 January 2009.

<sup>b</sup> Includes a scarcity premium of 20 basis points. Calculated by adding 20 basis points to the real risk free rate of 2.6%.

IPART intends to release a series of working papers commencing February 2009 seeking comments on alternative approaches to calculating market-based parameters, particularly the implied inflation rate and the debt margin. IPART will consider stakeholders' comments on these issues in response to both this draft decision and the working papers. These responses will guide IPART's considerations when making its final decision on the rate of return.

A detailed discussion of IPART's considerations in relation to the appropriate rate of return is provided in Appendix C.

#### **9.4 Deciding on the depreciation method and asset lives**

To calculate the allowance for regulatory depreciation, IPART used the straight-line depreciation method. Under this method, the assets in the RAB are depreciated by an equal value in each year of their economic life, so that their real written-down value describes a straight line over time, from the initial value of the asset to zero at the end of the assets life. IPART considers that this method is superior to alternatives in terms of simplicity, consistency and transparency.

IPART also decided on the asset lives to be used in calculating depreciation. In line with the 2006 Determination, it assumed that Wyong Council's existing assets had a life of 60 to 82 years, and new assets had a life of 100 years.

Finally, IPART decided on an appropriate depreciation rate for Wyong Council's two groups of assets:

- ▼ existing assets were depreciated by between 1.2 and 1.7 per cent in line with the asset life range of 60 to 82 years
- ▼ new assets were depreciated at the rate of 1 per cent (in line with an assumed asset life of 100 years).

This resulted in the allowance for regulatory depreciation shown in Table 9.2, at the front of this chapter.

## 10 Findings on forecast metered water sales and customer numbers for the Councils

IPART's decisions on each Council's forecast metered water sales and customer numbers are an important part of its price review, and have a major impact on the level of prices. There are two reasons for this:

- ▼ First, under the 'building block' approach for calculating the Councils' notional revenue requirements, the underlying assumptions about how demand for water and wastewater services will grow over the determination period affect how much revenue the Councils require for operating expenditure and capital investment. In general, higher forecast water sales and customer numbers will lead to higher revenue requirements.
- ▼ Second, once IPART has decided on the Councils' revenue requirements, it sets prices for individual services to recover this amount of revenue. Thus the level of prices depends on how much water each Council is expected to sell, and how many customers it is expected to have. Generally speaking, higher forecast water sales will lead to a lower level for the water usage charge, and higher numbers of customers will lead to lower services charges.

Therefore, it is important that the assumptions about forecast water sales and customer numbers are reasonable. The less accurate they are, the higher the risk that IPART will set prices that lead to the Councils significantly over- or under-recovering their required revenue.

To assess the reasonableness of the forecasts the Councils submitted for the 2009 determination period, IPART engaged Sinclair Knight Merz (SKM) to review these forecasts. It then considered SKM's findings and its own analysis of the Councils' forecasts. The section below summarises its draft decisions on the forecast metered water sales and customer numbers for each Council. The following sections discuss the Councils' submissions, SKM's findings and IPART's analysis in more detail.

### 10.1 Summary of IPART's draft decisions

#### Draft decisions

- 19 IPART's draft decisions are to adopt the Councils' forecast metered water sales as shown in Table 10.1 and the Councils' forecast customer numbers as shown in Table 10.2.

**Table 10.1 IPART's draft decision on forecast metered sales (ML/pa)**

	2009/10	2010/11	2011/12	2012/13
Wyong Council	11,657	12,422	13,187	13,952
Gosford Council	12,311	13,409	14,522	15,810

**Table 10.2 IPART's draft decision on forecast customer numbers**

	2009/10	2010/11	2011/12	2012/13
<b>Wyong Council</b>				
Residential connections	59925	60850	61775	62700
Non residential connections	3290	3360	3430	3500
Total connections	63215	64210	65205	66200
% Growth in customer connections	1.6%	1.6%	1.5%	1.5%
<b>Gosford Council</b>				
Residential connections	64706	65094	65484	65877
Non residential connections	3084	3102	3121	3140
Total connections	67790	68196	68605	69017
% Growth in customer connections	0.6%	0.6%	0.6%	0.6%

## 10.2 Forecast metered water sales

In making the 2006 Determination, IPART overestimated the Councils' forecast water sales over the determination period. This was largely because its assumptions about the level of restrictions that would apply over that period proved to be incorrect. (IPART's decision on forecast metered water sales was based on the assumption that level 2 restrictions<sup>76</sup> would apply throughout the period, while in fact level 3 restrictions<sup>77</sup> applied from June 2006 and level 4 restrictions<sup>78</sup> from October 2006.<sup>79</sup>)

Table 10.3 below shows the forecast metered water sales each Council submitted for the 2006 price review, IPART's decision on these sales, the Councils' actual sales, and the difference between IPART's decision and the actual sales.

<sup>76</sup> Level 2 restrictions limited the hosing of gardens to hand-held hoses on alternate days and only in the early morning or evening. Watering cans were permitted at any time.

<sup>77</sup> Level 3 restrictions limit garden watering to watering cans and restrict other outdoor use.

<sup>78</sup> Level 4 restrictions essentially ban all outdoor water use. The watering of residential gardens, filling or topping up of swimming pools, washing of cars and boats and showering at beaches is prohibited.

<sup>79</sup> Level 2 restrictions target a 16 per cent reduction in demand (relative to unrestricted demand), level 3 restrictions target a 30 per cent reduction and level 4 restrictions target a 32 per cent reduction. See: Gosford/Wyong Councils' Water Authority, *WaterPlan 2050 - Options report for the long term water supply strategy*, July 2007 p 53.



**Table 10.3 Gosford and Wyong Councils: Metered water sales over the 2006 determination period (ML/pa)**

	2006/07	2007/08	2008/09
<b>Wyong Council</b>			
Wyong Council forecast	13,594	13,879	14,164
IPART decision	12,939	13,128	13,245
Actual sales	10,889	10,786	10,893
Variation from IPART decision	-15.8%	-17.8%	-17.8%
<b>Gosford Council</b>			
Gosford Council forecast sales	13,200	13,345	13,492
IPART decision	13,637	13,782	13,847
Actual sales	12,201	11,151	11,152
Variation from IPART decision	-10.5%	-19.1%	-19.5%

**Note:** Actual metered sales for 2008/09 are estimates.

**Source:** Gosford City Council Annual Information Return to IPART, 2008; Wyong Shire Council Annual Information Return to IPART, 2008.

As a result of the difference between IPART's decision on forecast metered sales and the Councils' actual sales, Gosford Council under-recovered \$9.93 million (\$2008/09) and Wyong Council under-recovered \$9.68 million (\$2008/09) over the three-year determination period (compared to the revenue requirement allowed for in the 2006 Determination).

### 10.2.1 The Councils' forecast water sales for the 2009 determination period

The water sales forecasts submitted by Gosford and Wyong Councils are shown on Table 10.4 below.

**Table 10.4 The Councils' forecast water sales (ML/pa)**

	2009/10	2010/11	2011/12	2012/13
Wyong Council	11,657	12,422	13,187	13,952
Gosford Council	12,311	13,409	14,522	15,810

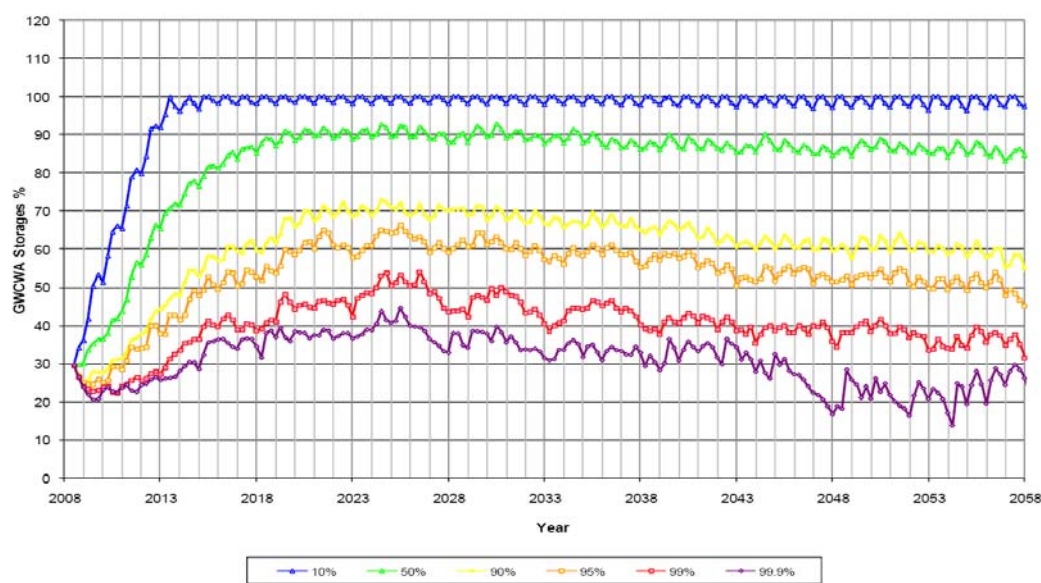
The Councils' forecasts were both based on the joint modelling undertaken by the Authority, and both were developed using a stochastic model. This model uses historical metered water sales, current and future water restrictions, unrestricted water demand estimates and water usage behaviour to predict future water sales.

#### Current and future water restrictions

The Councils' submissions noted that water restrictions are introduced and removed on the basis of the amount of water stored within the system. Restrictions are removed when water storages reach 47 per cent for capacity. The Councils presented

modelling of the joint water supply (JWS) system in support of the estimates. The model predicts that there is a 50 per cent chance that the JWS storages will recover to 47 per cent by 2011.<sup>80</sup> This modelling is shown in Figure 10.1

**Figure 10.1 Probability of storage levels for the Councils' JWS**



**Source:** Wyong Shire Council submission to the IPART price path from 1 July 2009 to 30 June 2013 (Appendix C).

Each of the coloured lines represents the likelihood that actual storage levels will be higher or lower than the level shown. For example, the model predicts that the chance of the actual storage level being higher than the storage level represented by the *blue* line is 10 per cent and the chance of it being lower is 90 per cent. Similarly, the chance of the actual storage level being higher than the green line is 50 per cent and the chance of it being lower is 50 per cent. The Councils have estimated their storage levels (and therefore water sales) based on the green (50 per cent) line.

The JWS model predicts that storage levels will gradually increase over the 2009 determination period, and will pass the trigger points for relaxing restrictions until restrictions are completely lifted when storages reach 47 per cent. The model predicts this will occur in the latter half of the determination period. As restrictions are gradually lifted it is expected that consumption will also increase up to the unrestricted demand level.

<sup>80</sup> This is the trigger point for removing water restrictions in both Council areas. Gosford/Wyong Councils' Water Authority, *WaterPlan 2050 - Options report for the long term water supply strategy*, July 2007, p 53.

### Unrestricted water demand estimates

To estimate unrestricted demand, the Councils used demand estimates developed for the Integrated Water Cycle Management Strategy (IWCM)<sup>81</sup>. These estimates were developed after considering water cycle issues, historical water usage, demographic changes and water management options. The analysis concluded that a return to pre-drought unrestricted demand levels is unlikely due to water saving measures and behavioural changes that have taken place through the drought.

### Water usage behaviour

The Councils' submissions acknowledged that the water usage behaviour of customers has been significantly modified over the period of drought and restrictions. As a consequence, they do not anticipate a step increase in water sales as restrictions are eased. Their forecasts assume that water sales will gradually increase following the removal of restrictions and will be restored to unrestricted levels in 2012/13.

#### 10.2.2 SKM's findings on forecast water sales

SKM found that both Gosford and Wyong Councils have:

- ▼ an awareness of their current storage and annual consumption position
- ▼ have developed and calibrated a specific forecast model
- ▼ documented the major assumptions underpinning the model
- ▼ used the calibrated model in a reasonable manner.

SKM further found that the Councils' water forecasts were based on a sound methodology which included:

- ▼ analysis of historical consumption data for forecasting demand for existing customers
- ▼ population growth consistent with the Department of Planning projections
- ▼ taking reasonable account of demand management initiatives impacts on consumption.

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<sup>81</sup> The IWCM is a document required by the NSW Department of Water and Energy. The Councils' document has received approval from this department.

### 10.2.3 IPART's analysis of forecast water sales

In making its draft decision on forecast water sales, IPART considered the Councils' submissions, and SKM's findings. It also looked at the key determinants of demand and their likely impact on water sales. The determinants that IPART particularly considered were:

- ▼ climatic conditions
- ▼ demand management measures and education programs
- ▼ price levels
- ▼ alternative sources of supply.

#### Climatic conditions

Rainfall and temperature are generally strong determinants of demand. Water consumption generally increases with above average temperatures and decreases with above average rainfall. However, much of this change in demand is related to outdoor water consumption. With fairly stringent water restrictions in place in the Gosford and Wyong Council areas, there is currently little scope for demand to fall below its current level.

Table 10.5 shows the household and per capita consumption in the Gosford and Wyong Council areas. IPART notes that these consumption levels are very low compared to other metropolitan areas. For example, residential consumption is more than 30 per cent lower than in Hunter Water's area of operations. IPART accepts the Councils' view that consumption will increase as restrictions are lifted, regardless of temperature or rainfall.

**Table 10.5 Gosford and Wyong Council areas: Actual and forecast residential water consumption, 2006/07 to 2012/13**

		2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Wyong residents	Residential consumption (kL/property/pa)	134	141	140	148	155	162	169
	Per capita residential consumption (l/d)	146	157	155	163	170	177	184
Gosford residents	Residential consumption (kL/property/pa)	160	145	144	158	171	184	199
	Per capita residential consumption (l/d)	174	160	159	175	189	203	220

**Note:** The per capita daily consumption is based on the Councils' population estimates. The actual figure is likely to be lower given that SKM considers that the Councils have underestimated the population they serve.

**Source:** Gosford City Council Annual Information Return to IPART, 2008; Wyong Shire Council Annual Information Return to IPART, 2008.

### Demand management measures and education programs

The Councils were offering rebates on water efficient washing machines and rainwater tanks over and above what was available from the State Government. Consistent with advice from Halcrow,<sup>82</sup> IPART does not consider there is merit in continuing with these programs, given that the average yield of the JWS scheme will be well in excess of average demand once the Mardi to Mangrove Link is completed. However, IPART expects that the State Government's BASIX<sup>83</sup> program will moderate consumption growth. IPART accepts the Councils' view that the effect of demand management measures and education programs will see unrestricted demand below its previous levels.

### Price level

Water consumption is generally thought to vary with changes in the water usage price. An increase in price is believed to affect the demand for water used for discretionary purposes, such as garden and lawn watering. The responsiveness of water demand to price, known as the price elasticity of demand (PED),<sup>84</sup> has generally been seen as inelastic and in the range -0.1 to -0.3.<sup>85</sup> IPART considers that water restrictions in the Gosford and Wyong Council areas have suppressed discretionary demand to such an extent that the PED is likely to be closer to -0.1. This suggests there is little scope for price increases to further reduce demand, as current demand is virtually all for non-discretionary use.<sup>86</sup> Therefore, IPART considers that the price increases under this draft determination will not have a material impact on reducing water demand and so, all other things being equal, consumption will increase over the determination period.

### Alternative sources of supply

Alternative sources of supply, such as recycled water, will reduce demand for potable water. Recycled water projects make good economic sense when a system is approaching a capacity constraint. However, when a system has a significant excess of supply over demand, as will be the case with the completion of the Mardi to Mangrove Link, it is inefficient to further augment supply. Therefore, IPART does not see any significant reduction in potable demand due to recycling or other alternative sources over the next four years.

<sup>82</sup> Halcrow were engaged by IPART to provide an independent review of the operating and capital expenditure programs of the Councils.

<sup>83</sup> BASIX targets a 40 per cent reduction in water consumption for new and substantially renovated properties.

<sup>84</sup> The price elasticity of demand measures the percentage change in quantity demanded for a given percentage change in price. Where a small change in price results in a large change in the quantity demanded (ie, a PED of greater than 1 in absolute terms), demand is said to be elastic. Where a small change in price has little or no impact on the quantity demanded (ie, a PED of less than 1 in absolute terms) demand is said to be inelastic.

<sup>85</sup> A PED of -0.1 means that for a 10 per cent increase in price there will be a 1 per cent decline in demand. A PED of -0.3 means that for a 10 per cent increase in price there will be a 3 per cent decline in demand.

<sup>86</sup> For example, uses related to drinking, bathing, cooking, washing and toilet flushing.

Given all the above, IPART's draft decision is to adopt the Councils' forecast water sales for the 2009 determination period.

### 10.3 Number of customer connections

#### 10.3.1 The Councils' estimated number of customer connections over the 2009 determination period

In its submission, Gosford Council forecast population growth of approximately 0.6 per cent per annum over the next four years. Wyong Council forecast population growth of close to 2.0 per cent per annum. Both Councils used these forecasts to arrive at their estimates of customer connections for the 2009 determination period. These estimates are shown in Table 10.6.

**Table 10.6 Gosford and Wyong Councils: Estimated number of customer connections**

	2008/09	2009/10	2010/11	2011/12	2012/13
<b>Wyong Council</b>					
Residential connections	59000	59925	60850	61775	62700
% change		1.6%	1.5%	1.5%	1.5%
Non residential connections	3220	3290	3360	3430	3500
% change		2.2%	2.1%	2.1%	2.0%
Total connections	62220	63215	64210	65205	66200
% change		1.6%	1.6%	1.5%	1.5%
<b>Gosford Council</b>					
Residential connections	64320	64706	65094	65484	65877
% change		0.6%	0.6%	0.6%	0.6%
Non residential connections	3065	3084	3102	3121	3140
% change		0.6%	0.6%	0.6%	0.6%
Total connections	67385	67790	68196	68605	69017
% change		0.6%	0.6%	0.6%	0.6%

#### 10.3.2 SKM's findings on customer connections

SKM found both Councils had underestimated the current population in their area of operations, compared to Australian Bureau of Statistics census data or NSW Department of Planning figures.

However, SKM found that Gosford Council's estimated population/customer connection growth rate of 0.6 per cent per annum over the next four years was consistent with Department of Planning projections.

In relation to Wyong Council, SKM found that its forecast population growth of 2.0 per cent per annum was significantly above the Department of Planning projections, which were closer to 1.5 per cent per annum.

### **10.3.3 IPART's analysis of forecast customer connections**

While the Councils' report their estimates of the population they serve to IPART, these estimates are not significant when it comes to setting prices. IPART sets prices to recover the Councils' revenue requirements based on the number customer connections for service charges, and volumes of water for usage charges. Both Councils' customer connection numbers can be accessed directly from their databases and these numbers are audited.

IPART's own analysis of both Councils' forecast number of customer connections and the underlying growth for this number found that these growth rates are in line with the NSW Department of Planning projections. Therefore, on balance, IPART considers that the Councils' forecast customer connection forecasts are reasonable and has decided to accept these proposals for the draft determination.

## 11 Pricing decisions for individual services

Using its draft decisions on the target revenue requirement for each Council, and the forecast water sales and customer numbers for each Council, IPART has made draft decisions on the maximum prices the Councils can charge for their water, sewerage and stormwater drainage services over the 2009 determination period.

The section below provides a summary of these draft pricing decisions. The following sections discuss:

- ▼ IPART's draft decision on the water usage charge for both councils, including the methodology it used for calculating this charge.
- ▼ IPART's draft decisions on the maximum prices Gosford Council can charge for water service, sewerage, stormwater drainage, trade waste and miscellaneous and ancillary charges.
- ▼ IPART's draft decisions on the maximum prices Wyong Council can charge for water service, sewerage, stormwater drainage, trade waste and miscellaneous and ancillary charges.

### 11.1 Summary of IPART's draft pricing decisions

For both Gosford and Wyong Councils, IPART's draft decision is that the **water usage charge** will increase from \$1.67 in 2008/09 to \$1.89 in 2012/13 in real terms. IPART's draft decisions on each council's other charges are summarised below.

#### 11.1.1 Gosford Council's other charges

For Gosford Council's other charges, IPART's draft decisions are that:

- ▼ The **water service charge** will increase from \$88.48<sup>87</sup> in 2008/09 to \$103.78 in 2012/13 for metered residential properties and metered non-residential properties with a 20mm meter. Water service charges for properties with larger meters will continue to be factored up to reflect the relative capacity of the meters.
- ▼ The **water service charge for vacant land** will continue to be consistent with the 20mm meter charge.

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<sup>87</sup> This excludes charges related to Gosford Council's contribution to the Climate Change Fund.



- ▼ The approach for setting the **water usage and service charges for unmetered residential and non-residential properties** will not change – that is, the water charges for an unmetered property will be in line with the water service charge for a property with a 20mm meter and the water usage charge for a property with the average water consumption for all the properties located on the same street.
- ▼ **Sewerage charges for properties connected to the sewerage system** will continue to be structured as currently, and the sewerage service charge for residential properties will increase by 23 per cent (real) over the determination period.
- ▼ The **sewerage usage charge** (which applies to non-residential customers only) will increase by 22 per cent (real) so that it is \$1.04 (\$2008/09) in 2012/13.
- ▼ The **stormwater drainage charges for residential and non-residential properties** will continue to be structured as currently, and the stormwater drainage service charge will increase by 22 per cent so that it is \$74.29 (\$2008/09) in 2012/13.
- ▼ The **trade waste approval charge** will increase by 41 per cent to \$329 (\$2008/09) in 2011/12 and be maintained in real terms in 2012/13.
- ▼ The **annual trade waste agreement fee categories 1, 2 and 3** will increase to \$165, \$310 and \$400 (\$2008/09) respectively in 2011/12 and be maintained in real terms in 2012/13.
- ▼ **All other trade waste charges** will be maintained in real terms in each year of the determination period.
- ▼ **All ancillary and miscellaneous services** will be maintained in their current structure and will be maintained in real terms in each year of the determination period.

### 11.1.2 Wyong Council's other charges

For Wyong Council's other charges, IPART's draft decisions are that:

- ▼ The **water service charge** will increase from \$97.31<sup>88</sup> in 2008/09 to \$175.06 in 2012/13 for metered residential properties and metered non-residential properties with a 20mm meter. Water service charges for properties with larger meters will continue to be factored up to reflect the relative capacity of the meters.
- ▼ The **water service charge for vacant land** will continue to be consistent with the 20mm meter charge.
- ▼ **Sewerage charges for properties connected to the sewerage system** will continue to be structured as currently, and the sewerage service charge for residential properties will increase by 3.1 per cent (real) over the determination period.
- ▼ The **sewerage usage charge** (which applies to non-residential customers only) will increase by 3.1 per cent (real) so that it is \$0.7669 (\$2008/09) in 2012/13.

<sup>88</sup> This excludes charges related to Wyong Council's contribution to the Climate Change Fund.

- ▼ A **stormwater drainage charge** of \$80.00 (\$2008/09) will be introduced for all residential properties and be maintained in real terms over the determination period. Multi-premises customers (eg, flats, units & townhouses etc) will pay 75 per cent of this charge, and non-residential customers will pay the residential charge scaled to their meter size<sup>89</sup>.
- ▼ The **Category 2 trade waste compliant charge** will increase by \$0.10/kL per annum in real terms over period of the determination, in line with recommendations from the Department of Water and Energy (DWE). As result this charge will increase from \$0.31/kL to \$0.71/kL (\$2008/09) (or 129 per cent) by 2012/13.
- ▼ All **other trade waste charges** will be maintained in real terms over the determination period.
- ▼ A **development and investigation charge** at \$641.30 for major developments and \$278.30 for minor development will be introduced, and be maintained in real terms over the determination period.
- ▼ All **other ancillary and miscellaneous services** will be maintained in real terms over the determination period.

## 11.2 Gosford and Wyong Councils' water usage charge

According to economic theory, prices for monopoly services such as water are efficient if they:

- ▼ signal to consumers the costs imposed (or avoided) if they increase (or reduce) their consumption by a small amount
- ▼ allow the service provider to recover the full, efficient cost of service provision and recover these costs with the least harm to economic efficiency.

In making its recent price determination for Sydney Water Corporation,<sup>90</sup> IPART set the water usage charge at the long-run marginal cost (LRMC) of the next increment of supply (which was taken to be the upgrade to 500 ML/day of the desalination plant currently under construction). This charge will reach \$1.93 per kL (\$2008/09) in 2011/12.

<sup>89</sup> A separate stormwater drainage charge will be introduced in 2009/10. Under the 2006 determination, Wyong Council recovers the costs associated with providing stormwater drainage services through the water service and sewerage service charges. For the draft determination, a separate stormwater drainage charge of \$80.00 will be introduced in 2009/10. Wyong Council had proposed making this change revenue neutral by decreasing the water service and sewerage service charge. However, the increase in the revenue requirement for Wyong Council has necessitated an increase in the water and sewerage services charges over and above the reduction that would have been attributable to the introduction of the stormwater drainage charge.

<sup>90</sup> IPART, *Review of prices for Sydney Water Corporations' water, sewerage, stormwater and other services, Determination and Final Report*, June 2008.

### 11.2.1 Gosford and Wyong Council's proposed water usage charge

Under the 2006 Determination for Gosford and Wyong Councils, IPART set the water usage price at the average LRMC of three augmentation options ie, the Mardi suite of works, the Groundwater Extraction projects, and the Hunter Water Connection. This price increased progressively over the determination period, until it reached the mid-point of the LRMC range. The usage price is currently \$1.67/kL.

In their submissions to the 2009 price review, the Councils proposed the same water usage price for both Councils. The proposed price over the determination period is shown in Table 11.1.

**Table 11.1 Gosford and Wyong Councils: Proposed water usage charges, 2009/10 to 2012/13 (\$2008/09)**

2008/09	2009/10	2010/11	2011/12	2012/13
1.67	1.71	1.76	1.82	1.89

**Note:** Gosford and Wyong Council staff informed IPART that the intention was to have the same usage charge. IPART identified an error in Gosford's submission involving a double CPI adjustment. This error has been corrected in the figures shown in the table.

### 11.2.2 IPART's analysis and draft decision

To analyse the appropriate price for the water usage charge, IPART determined a range for the LRMC of water in the Wyong and Gosford areas over the determination period. It then compared the Council's proposed charges to this range.

To determine the LRMC of water, the generally accepted approach is to calculate the net present value (NPV) of all the capital and operating costs over the life of the project (next increment of augmentation) and divide this by the NPV of the benefits (water) over the life of the project.

IPART assumed the next increment of supply to be the Mardi to Mangrove Link<sup>91</sup>. The major issues it considered where:

- ▼ whether the capital costs in the LRMC calculation should include the \$80m Commonwealth grant or not
- ▼ whether the benefits from the dam, that is the future stream of water, should be discounted at the WACC or at some lower discount rate
- ▼ whether the benefits (water) used in the LRMC calculation should be assumed to be the weighted average expected volume of water pumped through the Mardi to Mangrove Link (3.3 GL per annum) or the increase in yield (7.0 GL per annum) the link provides.

<sup>91</sup> This assumes that Hunter Water is not the marginal supplier as the Hunter link is already in place and the system yield model already assumes transfers from the Hunter and attributes a 4GL increase in yield to the Hunter link. Water from Tillegra has not been considered as there are no plans by either the JWS or Hunter Water to share water from Tillegra at this stage.

IPART assumed a discount rate of 7.0 per cent per annum and included the \$80m of Commonwealth grants into the cost base. This resulted in a range for the LRMC of water of between \$1.49/kL (\$2008/09) and \$2.60/kL (\$2008/09).

IPART found that the water usage prices the Councils proposed in their submissions fall within this range for the LRMC. Given this, IPART considers it appropriate to adopt the Councils' proposed levels for water usage charge over the determination period. It considers that the proposed levels are consistent with objective of signalling the cost of consumption to residents of the Central Coast. Further it allows IPART to set water service charges (fixed charges) to recover the annual revenue requirement of Gosford Council and Wyong Council.

#### Draft decision

- 20 IPART's draft decision is to set the water usage charge for Gosford Council and Wyong Council at the levels proposed by the Councils and shown in Table 11.2.

**Table 11.2 Gosford and Wyong Councils: Draft decision on the water usage charge (\$/kL) (\$2008/09)**

2008/09	2009/10	2010/11	2011/12	2012/13
1.67	1.71	1.76	1.82	1.89

## 11.3 Gosford City Council's other charges

### 11.3.1 Water service charges for metered residential and non-residential properties

#### Draft decision

- 21 IPART's draft decision is that Gosford City Council can
- charge customers the maximum water service charges for metered residential properties and metered non-residential properties shown in Table 11.3.
  - increase these maximum water service charges to recover contributions to the Climate Change Fund by an amount calculated using the methodology outlined in the draft determination.

**Table 11.3 Gosford City Council: Draft decision on water service charges for metered residential properties and metered non-residential properties (\$2008/09)**

Charge	2008/09	2009/10	2010/11	2011/12	2012/13
Meter size (\$ per annum)					
20mm	88.48	98.39	101.77	102.85	103.78
For meter sizes above 20mm the following formula applies	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400

**Note:** This excludes charges related to Gosford Council's contribution to the Climate Change Fund.

IPART modelled the revenue Gosford Council is likely to raise from the water usage charge, based on its draft decisions on the level of this charge (discussed above) and Gosford Council's forecast water sales (discussed in Chapter 10). It then subtracted this revenue from its draft decision on the target revenue required to cover the full, efficient costs of providing water supply services to determine how much revenue the Council needs to raise through the water service charge. IPART then calculated that to raise this amount of revenue, the water service charges for metered residential properties and metered non-residential properties need to increase from \$88.48 in 2008/09 to \$103.78 in 2012/13.

IPART concurs with Gosford Council that incorporating contributions to the Climate Change Fund within prices over the 2009 determination period introduces significant uncertainties for Gosford Council. Further, IPART notes that the quantum of the contribution is the subject of considerable scrutiny.<sup>92</sup> In light of this, IPART has decided to maintain the approach taken for the 2006 Determination. Under this approach, Gosford Council will be allowed to increase the maximum water service charges set by the 2009 Determination to recover contributions to the Climate Change Fund. This increase is to be calculated using the methodology provided within the draft determination.

### 11.3.2 Water service charge for vacant Land

Draft decision

- 22 IPART's draft decision is to maintain the current structure of prices for water service charges for vacant land.

Under the 2006 Determination, the water service charge for vacant land is the same as the water service charge for a metered property with 20mm meter. As Gosford Council did not propose any changes to this charge, IPART has decided to maintain this approach under the 2009 Determination.

Draft decision

- 23 IPART's decision is that Gosford City Council can charge customers the maximum water service charges for vacant land shown in Table 11.4.

**Table 11.4 Gosford City Council: Draft decision on water service charges for vacant land (\$2008/09)**

	Current (1 July 2008 to 30 June 2009)	1 July 2009 to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
Water Service Charge (\$ per annum)	88.48	98.39	101.77	102.85	103.78

**Note:** This excludes charges related to Gosford Council's contribution to the Climate Change Fund.

<sup>92</sup> By the NSW Department of Water and Energy and the Minister for Local Government.

### 11.3.3 Sewerage charges

#### Draft decision

- 24 IPART's decision for the draft determination is to maintain the current structure of prices for sewerage services for residential and non-residential customers.

The price structure for sewerage services differs for residential and non-residential customers. Residential customers only pay a fixed service charge. Non-residential customers pay a fixed service charge, based on the size of the water meter fitted at the property in question, plus a usage charge based on the volume of water used multiplied by a discharge factor.

In its submission Gosford Council proposed that this structure be maintained. Therefore, IPART has decided to retain the current sewerage charging structure.

#### Draft decision

- 25 IPART's draft decision is that Gosford City Council can charge residential customers the maximum sewerage charges shown in Table 11.5.

**Table 11.5 Gosford City Council: Draft decision on sewerage service charges for residential properties for (\$2008/2009)**

	Current (1 July 2008 to 30 June 2009)	1 July 2009 to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
Sewerage Service Charge for residential properties (\$ per annum) <sup>a</sup>	399.40	440.08	457.10	474.76	493.07

<sup>a</sup> This charge applies to residential properties. For non-residential properties with larger connections the charge is calculated according to the meter size.

## Draft decision

26 IPART's draft decision is that Gosford City Council can charge non-residential customers the maximum sewerage charges shown in Table 11.6.

**Table 11.6 Gosford City Council: Draft decision on sewerage charges for non-residential properties (\$2008/09)**

	Current (1 July 2008 to 30 June 2009)	1 July 2009 to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
Availability charges					
20mm connection (\$ per annum)	298.60	329.01	341.74	354.94	368.63
For meter sizes above 20mm, the following formula applies	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400
Sewerage usage charge (\$ per kL)	0.85	0.93	0.97	1.00	1.04
Minimum annual Sewerage bill for non- residential properties (\$ per annum)	399.40	440.08	457.10	474.76	493.07

In its submission, Gosford Council proposed that the sewerage usage charge for non-residential properties be increased from \$0.85 in 2008/09 to \$1.07 in 2012/13 (\$2008/09). However, Gosford Council did not provide any explanation or justification for the proposed increase. Therefore, IPART has decided to increase the sewerage usage charge by the same annual increase (in percentage terms) as the sewerage service charge.

### 11.3.4 Stormwater drainage charges

## Draft decision

27 IPART's draft decision is to maintain the current structure of prices for stormwater drainage services for residential and non-residential customers.

Under the 2006 Determination, residential and non-residential customers paid a fixed service charge for stormwater drainage services.

In its submission, Gosford Council proposed that this structure be maintained. This structure was introduced at the 2006 Determination and IPART considers it is an efficient and cost reflective way for Gosford Council to recover the costs of providing stormwater drainage services. Therefore, IPART has decided to retain the current structure.

## Draft decision

- 28 IPART's draft decision is that Gosford City Council can charge customers the maximum stormwater drainage charges shown in Table 11.7.

**Table 11.7 Gosford City Council: Draft decision on stormwater drainage charges (\$2008/2009)**

	Current (1 July 2008 to 30 June 2009)	1 July 2009 to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
Stormwater drainage service charge (\$ per annum)	60.82	65.08	68.01	71.08	74.29

### 11.3.5 Trade waste charges

Trade wastes typically involve much higher strength discharges than domestic sewage, and consequently can impact on downstream sewerage systems and sewage treatment plant (STP) operation. In addition, the presence of toxic substances can adversely affect the biological processes within a sewage treatment plant, damage sewerage infrastructure and present a significant safety risk for sewerage system operations and maintenance personnel.

The maximum fees set by IPART associated with trade waste discharges to the sewer relate to the cost of:

- ▼ transporting the trade wastes (through the sewerage reticulation system)
- ▼ treating the trade wastes (through the sewage treatment plant)
- ▼ maintaining the transportation and treatment infrastructure
- ▼ minimising public/environmental nuisance from acceptance of trade wastes (such as preventing overflows and reducing odours)
- ▼ implementing risk and hazard identification incorporating programs to minimise damage to systems and maintain a safe working environment for operations/maintenance personnel
- ▼ implementing trade waste monitoring programs to ensure that licence agreements are met.



### Gosford Council's proposed trade waste charges

For the majority of trade waste charges, Gosford Council proposed that price increases be limited to movements in the inflation rate. However, the Council proposed significant increases in the approval charge<sup>93</sup> and the trade waste agreement fee Categories 1, 2 and 3.<sup>94</sup> The levels of these proposed charges are shown in Table 11.8.

**Table 11.8 Gosford City Council: Proposed levels for the trade waste approval charge and the trade waste agreement fee Categories 1, 2 and 3 (\$2008/09)**

Charge	2008/09	2009/10	2010/11	2011/12	2012/13
Approval (\$/5y) <sup>a</sup>	\$233.86	\$329.00	\$329.00	\$329.00	\$329.00
Trade waste agreement fee Category 1 (\$/y)	\$72.60	\$165.00	\$165.00	\$165.00	\$165.00
Trade waste agreement fee Category 2 (\$/y)	\$72.60	\$310.00	\$310.00	\$310.00	\$310.00
Trade waste agreement fee Category 3 (\$/y)	\$72.60	\$400.00	\$400.00	\$400.00	\$400.00

<sup>a</sup> As quoted by Gosford City Council. This fee is included in the 2006 Determination as a one-off charge, not five yearly.

**Source:** Gosford City Council submission.

Gosford Council submitted that its proposed increases in these charges are necessary to recover the costs of complying with Council's trade waste policy and the DWE Trade Waste Guidelines. More specifically, the Council has advised that the trade waste agreement fee Category 1 needs to recover the costs of annual inspections, Category 2 needs to recover the costs of quarterly inspections and Category 3 must recover the costs of monthly inspections.

### IPART's analysis and draft decision

In relation to the trade waste approval and agreement fees, IPART investigated the corresponding charges levied by other agencies and compared the revenues received by Gosford Council for this service with the costs it incurred in providing the service. IPART decided that Gosford Council's current charges do not reflect the full, efficient costs incurred and are significantly lower than other agencies.

In addition, IPART consulted with the Department of Water and Energy. The DWE Trade Waste Guidelines note that trade waste charges can be increased over a period of three years to move to cost reflective pricing. IPART considers that increasing the charges in this manner allows time for customers to adjust to the new charging and allows Gosford Council's prices to become more cost reflective.

<sup>93</sup> Miscellaneous and Ancillary service charge 31: Approval.

<sup>94</sup> As defined in the Department of Energy, Utilities and Sustainability, Liquid Trade Waste Management Guidelines, March 2005 (the DWE Trade Waste Guidelines). These are best practice guidelines with which Local Water Utilities are expected to comply.

For all other trade waste charges IPART agrees with Gosford Council's proposal that these charges be maintained at current levels in real terms, ie, increases will be limited to changes in inflation.

IPART considers that a more extensive review of trade waste charging should be undertaken at the same time as the 2013 Determination.

#### Draft decision

29 IPART's draft decision is that Gosford City Council can:

- charge customers the maximum trade waste approval and agreement fees shown in Table 11.9
- maintain all other trade waste charges at the current level in real terms.

**Table 11.9 Gosford City Council: Draft decision on trade waste approval and agreement fees (\$2008/09)**

Charge	2008/09	2009/10	2010/11	2011/12	2012/13
Approval (\$) <sup>a</sup>	\$233.86	\$265.57	\$297.29	\$329.00	\$329.00
Trade waste agreement fee Category 1 (\$/y)	\$72.60	\$103.40	\$134.20	\$165.00	\$165.00
Trade waste agreement fee Category 2 (\$/y)	\$72.60	\$151.74	\$230.87	\$310.00	\$310.00
Trade waste agreement fee Category 3 (\$/y)	\$72.60	\$181.74	\$290.87	\$400.00	\$400.00

<sup>a</sup> This is a one-off charge.

### 11.3.6 Ancillary and miscellaneous charges

#### Draft decision

30 IPART's draft decision is to maintain Gosford Council's current ancillary and miscellaneous charges in real terms.

In its submission, Gosford Council proposed changes to two ancillary and miscellaneous charges:

- ▼ the major and minor works inspections fee
- ▼ the water service connection fee.

#### Major and minor works inspections fee

This fee is currently levied for inspecting and approving water and sewerage mains constructed by others for pipes that are longer than 25m and/or greater than 2 metres in depth. The charge is currently specified as a 'per metre' rate with a lump-sum reinspection fee.

Gosford Council proposed that the minimum length/depth dimensions be removed and a minimum charge of \$100 is applied.

IPART reviewed the charges currently levied by other agencies and the justification provided by Gosford Council for the change. IPART found that the charge currently levied by Gosford Council is comparable to other agencies and that there is little justification for deviating from this.

IPART also notes that the additional revenue received by Gosford Council would be negligible but the impact on customers undertaking small works significant.

#### Draft decision

- 31 IPART's draft decision is that the definition for the ancillary and miscellaneous service charge 19: Major and Minor Works Inspection Fee remain unchanged.

#### Water service connection fee

In its submission, Gosford Council proposed that the charge for a 25mm connection be removed from the 20mm connection classification to allow Gosford Council to quote individually for this service. The reasoning provided is that connection of a 25mm meter is more expensive than a 20mm and generally involves additional piping.

IPART reviewed the information provided by Gosford Council and found that justification for amending the water service connection fee definition was unsatisfactory and there was insufficient information provided to quantify the impact of the change. IPART will reconsider this decision for the final determination if Gosford Council provides additional information.

#### Draft decision

- 32 IPART's draft decision is that the definition for the ancillary and miscellaneous service charge 34: Water service connection fee remain unchanged.

#### Other ancillary and miscellaneous charges

For all other ancillary and miscellaneous charges Gosford Council proposed that the charges be maintained in real terms.

For the 2005 Determination, IPART employed a consultant to review Gosford Council's miscellaneous charges. The consultant concluded that the structure was supportable but the charges were unlikely to recover costs over the period of the determination. In setting these charges for the 2006 Determination, IPART aimed to balance Gosford Council's cost recovery and the impact of significant price increases on customers. In light of the previous findings, IPART has decided to maintain the current structure of ancillary and miscellaneous charges and maintain the charges in real terms.

IPART considers that a full review of all ancillary and miscellaneous charges should be undertaken at the 2013 Determination.

## 11.4 Wyong Shire Council's other charges

### 11.4.1 Water service charge for metered residential and non-residential properties

Draft decision

33 IPART's draft decision is that Wyong Shire Council can:

- charge customers the maximum water service charges for metered residential properties and metered non-residential properties shown in Table 11.10
- increase these maximum water service charges to recover contributions to the Climate Change Fund by an amount calculated using the methodology outlined in the draft determination.

**Table 11.10 Wyong Shire Council: Draft decision on water service charges for metered residential properties and metered non-residential properties (\$2008/09)**

Charge	2008/09	2009/10	2010/11	2011/12	2012/13
Meter size (\$ per annum)					
20mm	97.31	98.00	121.12	146.16	175.06
For meter sizes above 20mm the following formula applies	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400

**Note:** This excludes charges related to Wyong Shire Council's contribution to the Climate Change Fund.

IPART modelled the revenue Wyong Council is likely to raise from the water usage charge, based on its draft decisions on the level of this charge (discussed above) and the Council's forecast water sales (discussed in Chapter 10). It then subtracted this revenue from its draft decision on the target revenue for providing water supply services to determine how much revenue the Council needs to raise through the water service charge. IPART then calculated how much the water service charge needs to increase to raise this amount of revenue<sup>95</sup>.

Wyong Council's submission included an estimate for the Climate Change Fund Levy in the water service charge. IPART also considered Gosford Council's view that incorporating contributions to the Climate Change Fund within prices over the 2009 determination period introduces significant uncertainties for the Councils. IPART agrees with this view, and notes that the quantum of the Councils' contributions is the subject of considerable scrutiny.<sup>96</sup> In light of this, IPART decided to maintain the approach taken for the 2006 Determination. Under this approach,

<sup>95</sup> The introduction of a separate stormwater charge has offset much of the necessary increase in the water service charge in 2009/10.

<sup>96</sup> By the NSW Department of Water and Energy and the Minister for Local Government.

Wyong Council will be allowed to increase the maximum water service charges set by the 2009 Determination to recover contributions to the Climate Change Fund. This increase is to be calculated using the methodology provided within the draft determination.

#### 11.4.2 Water service charge for vacant land

Draft decision

- 34 IPART's decision is that Wyong Shire Council can charge customers the maximum water service charges for vacant land in Table 11.11.

**Table 11.11 Wyong Shire Council: Draft decision on the water service charge for vacant land (\$2008/09)**

	Current (1 July 2008 to 30 June 2009)	1 July 2009 to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
Water service charge (\$ per annum)	97.31	98.00	121.12	146.16	175.06

**Note:** This does not include Wyong's contribution to the Climate Change Fund

**Source:** Secretariat Modelling of Wyong Shire Council.

For the 2006 Determination, the water service charge for vacant land was the same as for a metered property with a 20mm meter. As Wyong Council did not propose any change to this charging structure, IPART has maintained this approach.

#### 11.4.3 Sewerage charges

Draft decision

- 35 IPART's draft decision is to maintain the current structure of prices for sewerage services for residential and non-residential customers.

The current price structure for sewerage services differs for residential and non-residential customers. Residential customers only pay a fixed service charge. This is because the costs of providing sewerage services are predominately fixed costs associated with pipes, pumping stations and treatment works infrastructure.<sup>97</sup> Non-residential customers pay a fixed service charge, based on the size of the water connection, plus a usage charge based on the volume of water used multiplied by a discharge factor.

<sup>97</sup> The variable cost of processing 200kL of domestic sewerage is only in the order of \$25 to \$30 per annum. Sources:

a) SA water estimate the avoided cost of a household using the sewerage system at approximately \$25.00pa (<http://www.sawater.com.au/NR/rdonlyres/985FFD3D-2DDD-42B0-B69E-8FC7419A2976/0/PARTA.pdf>)

b) A study of 77 utilities in Toronto found the average cost of treating 200kL of sewage to be CAN\$25.60(2007)  
<http://www.rccao.com/research/files/HarryKitchenerfinalreport-july9-2007.pdf>

In line with Wyong Council proposal, IPART has decided that the current price structure for sewerage services be maintained.

#### Draft decision

36 IPART's draft decision is that Wyong Shire Council can charge:

- residential customers the maximum sewerage charges shown in Table 11.12
- non-residential customers the maximum charges shown in Table 11.13.

**Table 11.12 Wyong Shire Council: Draft decision on sewerage charges for residential properties (\$2008/2009)**

	Current (1 July 2008 to 30 June 2009)	1 July 2009 to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
Sewerage Service Charge for residential properties (\$ per annum)	412.67	412.81	416.93	421.08	425.29

**Table 11.13 IPART's draft decision for sewerage charges for non-residential properties for Wyong Shire Council**

	Current (1 July 2008 to 30 June 2009)	1 July 2009 to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
Sewerage Service Charges					
20mm connection (\$ per annum)	148.67	148.72	150.20	151.70	153.22
For meter sizes above 20mm, the following formula applies	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400
Sewerage usage charge (\$ per kL)	0.7441	0.7444	0.7518	0.7593	0.7669
Minimum annual Sewerage bill for non- residential properties (\$ per annum)	412.67	412.81	416.93	421.08	425.29

**Note:** If the sum of the 20mm connection fee and the usage charges levied on a non-residential customer are less than the minimum annual sewerage bill, then the minimum annual sewerage bill for non-residential properties will apply.

**Source:** Secretariat modelling of Wyong Shire Councils Pricing.

Wyong Council proposed that the sewerage service charge for residential and non-residential properties be reduced by \$50 in 2009/10, to partially offset the introduction of a separate stormwater drainage service fee. IPART accepted this proposal. However, as its modelling indicated that the current sewerage charges under recover Wyong Council's efficient costs, it also decided to increase sewerage charges over the determination period to ensure the Council can continue to operate its services sustainably. As a result, the sewerage service charges increase very

slightly in 2009/10, and more significantly in each of the remaining years of the determination period.

#### Draft decision

- 37 IPART's draft decision is that Wyong Council can charge the maximum sewerage service charges for vacant land shown in Table 11.14.

**Table 11.14 Wyong Shire Council: Draft decision on the sewerage service charge for vacant land (\$2008/09)**

Sewerage Service Charges	Current (1 July 2008 to 30 June 2009)	1 July 2009 to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
Sewerage Service Charge per Annum	309.51	309.62	312.71	315.82	318.98

**Source:** Secretariat Modelling of Wyong Shire Council Pricing.

Wyong Council also levies a sewerage service charge for vacant land. This is a charge for vacant land to which a sewerage service is supplied or to which it is reasonably practical for sewerage services to be supplied. IPART has decided to maintain the same relativity between residential sewerage service charges and vacant land sewerage service charges.

#### Draft decision

- 38 IPART's draft decision is that Wyong Council can levy the maximum sewerage service charges for exempt land shown in Table 11.15.

**Table 11.15 Wyong Shire Council: Draft decision on sewerage service charge for exempt land (\$2008/09)**

Sewerage Service Charges	Current (1 July 2008 to 30 June 2009)	1 July 2009 to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
Per Water Closet	58.26	58.28	58.86	59.45	60.04
Per Cistern Servicing a Urinal	20.63	20.64	20.84	21.05	21.26

Wyong Council also levies a sewerage service charge for exempt properties. Properties exempt from services charges under Schedule 4 of the *Water Management Act 2000 No. 92* are charged a fee in accordance with Section 310(2) of the Act. Wyong Council has not proposed to change the structure of these charges. IPART has accepted this proposal and has decided to maintain the same relativity between other sewerage service charges and sewerage service fees for exempt properties.

#### 11.4.4 Stormwater drainage charges

Draft decision

39 IPART's draft decision is:

- to introduce a residential stormwater drainage charge of \$80 (\$2008/09) per annum from 1 July 2009 for all individually metered residential dwellings and that the charge be maintained in real terms in the subsequent years of the determination, as shown in Table 11.16
- that residential strata properties, company title dwellings and residential community title dwellings with a common water meter be charged 75 per cent of the standard residential stormwater drainage charge
- to introduce a non-residential stormwater drainage charge as show Table 11.17.

**Table 11.16 Wyong Shire Council: Draft decision on residential stormwater drainage service charge (\$2008/2009)**

Service charge	Current (1 July 2008 to 30 June 2009)	1 July 2009 to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
Stormwater drainage Service charge per annum	0.00	80.00	80.00	80.00	80.00

Source: Wyong submission.

**Table 11.17 Wyong Shire Council: Draft decision on non-residential stormwater drainage charge (2008/2009)**

Drainage service charge	Current (1 July 2008 to 30 June 2009)	1 July 2009 to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
20mm connection (\$ per annum)	0.00	80.00	80.00	80.00	80.00
For meter sizes above 20mm, the following formula applies	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400	(Meter size) <sup>2</sup> x 20mm charge/400

Wyong Council has traditionally recovered the cost of stormwater drainage through the water and sewerage charges, as in the past it did not have the power under the Water Management Act to impose a separate stormwater drainage charge. At the time of the last determination, IPART stated its intention to introduce a stormwater drainage charge in the 2009 Determination.

In its submission, Wyong Council proposed introducing an \$80 per annum (\$2008/09) residential stormwater drainage charge from 1 July 2009. At the same time, it proposed to reduce the water service charge by \$30 and the sewerage service charge by \$50 per annum to balance the introduction of the stormwater drainage



charge, with all other factors remaining constant. In addition, it proposed that residential strata properties pay 50 per cent of the residential stormwater drainage charge and that residential company title properties pay one fee of \$80 (\$2008/09) apportioned by the number of shares owned by each shareholder. Further, it proposed a non-residential stormwater drainage charge based on the size of the property being serviced.

IPART believes that Wyong Council's proposal for individual residences is reasonable. However, for the introduction of the stormwater drainage charge to be revenue neutral, all other things being equal, IPART considers that multi-residential properties with a common water meter should pay 75 per cent of the standard residential stormwater drainage charge.

In relation to the proposal for non-residential properties, IPART notes that Wyong Council does not have the necessary information regarding the size of non-residential properties and therefore is unable to assess the impact of its proposal on revenue or individual customers at this time.

IPART considers that introducing an area-based stormwater drainage charge for non-residential customers should not occur until Wyong Council can provide detailed information about the size of non-residential properties, the impact on total revenue and the impact on different customer classes. In the interim, IPART considers that setting non-residential stormwater drainage charges based on water meter size is the only methodology that will allow IPART to make a revenue neutral change and leave all non-residential customers in the same relative position they are in under the 2006 Determination. This would allow time for Wyong Council to undertake analysis about area based charging before possibly proposing it again in their 2013 price submission.<sup>98</sup>

#### 11.4.5 Trade waste charges

Trade waste typically involves much higher strength wastewater than domestic sewage, and consequently can impact on downstream sewerage systems and sewage treatment plant (STP) operation. In addition, the presence of toxic substances can potentially adversely affect the biological processes within the STP, damage sewerage infrastructure and present a significant safety risk for sewerage system operations and maintenance personnel.

The maximum fees set by IPART associated with trade waste discharges to the sewer relate to the cost of:

- ▼ treating the wastewater (through the sewage treatment plant)
- ▼ maintaining the transportation and treatment infrastructure (the additional costs imposed over and above that of the same quantity of domestic effluent)

<sup>98</sup> Water and sewerage service charges are currently calculated as a function of meter size.

- ▼ implementing risk and hazard identification incorporating programs to minimise damage to systems and maintain a safe working environment for operations/maintenance personnel
- ▼ implementing trade waste monitoring programs to ensure that licence agreements are met.

Wyang Council proposed some changes to the trade waste usage fee Category 2 and effluent and sludge removal charges, and proposed introducing some new sewerage-related charges. For all other trade waste charges, the Council proposed to maintain charges in real terms. IPART's draft decisions on these charges are discussed below.

### The trade waste usage fee Category 2

#### Draft decision

- 40 IPART's draft decision is that Wyong Council's trade waste usage fee for category 2 compliant wastes be increased by 10 cents in real terms as shown in Table 11.18.

**Table 11.18 Wyong Shire Council: Draft decision on Category 2 Compliant Trade Waste Usage Charges (\$/kL) (\$2008/09)**

Usage Charges	Current (1 July 2008 to 30 June 2009)	1 July 2009 to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
Category 2 Trade Waste Usage Charge	\$0.31	\$0.41	\$0.51	\$0.61	\$0.71

Source: Wyong Shire Council submission.

Wyang Council proposed to increase the trade waste usage fee – category 2 compliant in accordance with DWE Trade Waste Guidelines.<sup>99</sup> In 2005, the DWE Trade Waste Guidelines provided for a new trade waste usage charge of \$1.20 per kL for compliant discharges reflecting full cost recovery from trade waste dischargers subject to this charge.<sup>100</sup>

DWE recommends that large increases in trade waste fees may be phased in over a period of up to 3 years. However, Wyong Council proposed, and IPART accepted, that the increases to the category 2 usage fee for trade waste be phased in over a longer period in order to minimise impacts to customers. Over the 2006 determination period, the category 2 trade waste usage charge increased by \$0.10 per annum above CPI to a current charge of \$0.31/kL.

<sup>99</sup> The Department of Water and Energy issues best practice management guidelines with the expectation that they are followed by the local water authorities.

<sup>100</sup> A trade waste usage fee is levied to recover the additional cost of transporting and treating liquid trade waste from Category 2 dischargers. Category 2 liquid trade waste dischargers are those conducting an activity deemed by Council as requiring a prescribed type of liquid trade waste pre-treatment equipment and whose effluent is well characterized.

IPART has decided to continue with the phased increase of \$0.10 per annum to the 2008/09 base with adjustment for CPI during the period of this determination. IPART also signals its intention to conduct an extensive review of trade waste charges for the 2013 Determination.

### Effluent and sludge removal charges

#### Draft decision

- 41 IPART's draft decision is to maintain the current structure of the effluent and sludge removal charges for residential and non-residential properties and allow the incremental increases shown in Table 11.19 and Table 11.20

**Table 11.19 Wyong Shire Council: Draft decision on effluent and sludge removal charges for residential properties (\$2008/09)**

Availability charges	Current (1 July 2008 to 30 June 2009)	1 July 2009 to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
Fortnightly effluent removal and disposal service(per annum)	950.66	950.98	960.47	970.03	979.73
Additional requested effluent removal and disposal service (per visit)	36.79	36.80	37.17	37.54	37.92
Sludge removal and disposal service - septic tanks with capacity up to 2750 litres (per service)	266.69	266.78	269.44	272.13	274.85
Sludge removal and disposal service - septic tanks with capacity exceeding 2750 litres or AWTS with one tank (per service)	346.00	346.12	349.57	353.05	356.58
Sludge removal and disposal service - AWTS with more than one tank (per service)	516.13	516.31	521.46	526.65	531.91
Chemical Closet-Fortnightly service (per year)	1,370.17	1,370.63	1,384.31	1,398.09	1,412.07
Chemical Closet-Each requested special service	26.69	26.70	26.97	27.23	27.51

**Source:** Secretariat Modelling of Wyong Council Pricing.

**Table 11.20 Wyong Shire Council: Draft decision on effluent and sludge removal charges for non-residential properties (\$2008/09)**

Availability charges	Current (1 July 2008 to 30 June 2009)	1 July 2009 to 30 June 2010	1 July 2010 to 30 June 2011	1 July 2011 to 30 June 2012	1 July 2012 to 30 June 2013
Commercial Effluent removal and disposal service (\$/kL)	12.19	12.19	12.32	12.44	12.56
Sludge removal and disposal service - septic tanks with capacity up to 2750 litres (per service)	266.69	266.78	269.44	272.13	274.85
Sludge removal and disposal service septic tanks with capacity exceeding 2750 litres or AWTS with one tank (per service)	346.00	346.12	349.57	353.05	356.58
AWTS with more than one tank (\$ per service)	516.13	516.31	521.45	526.65	531.91
Sludge disposal only (collected and organised by customer (\$kL)	28.74	28.75	29.04	29.33	29.62
Chemical Closet-Fortnightly service (per year)	1,370.17	1,370.63	1,384.31	1,398.09	1,412.07
Chemical Closet-Each requested special service	26.69	26.70	26.97	27.23	27.51

**Source:** Secretariat modelling of Wyong Shire Council Pricing.

Wyong Council did not propose any changes to the structure of the effluent and sludge removal charges for residential or non-residential properties. Therefore, IPART decided to maintain the current structure of these charges and the same relativity between effluent and sludge removal charges and other sewage-related services.

#### New sewerage-related charges proposed by Wyong Council

##### Draft decision

- 42 IPART's draft decision is not to approve any of the additional sewerage-related charges proposed by Wyong Council.

In its submission, Wyong Council proposed that a number of new trade waste charges be introduced for sewerage-related services. These included administrative charges for septic tanks and chemical toilets and nightsoil collections. The administrative charge for septic tanks and chemical toilets are currently collected by the general council and can continue to be collected by the general council. Wyong Council submitted that DWE wants septic tank and chemical toilet effluent to be treated as trade waste and Wyong Council asked these charges be included in the trade waste section of the 2009 Determination.

However, given that Wyong Council can levy the proposed charges through general council charges, IPART does not consider that these charges should be included in the Determination. Wyong Council has recently advised IPART that it no longer seeks to include nightsoil charges in this Determination.

#### All other trade waste charges

##### Draft decision

**43 IPART's draft decision is that Wyong Council can maintain all other trade waste charges in real terms.**

Wyong Council proposed that all other trade waste charges be maintained in real terms. IPART considers this reasonable, and therefore has made its draft decision in line with the Council's proposal.

#### 11.4.6 Ancillary and miscellaneous charges

##### Development investigation charge

Wyong Council proposed to introduce a new miscellaneous charge commencing 2009/10. This development investigation charge for water and sewerage development proposals is intended to recover the Council's costs for these services. The charge would be levied where Council is required to undertake water and sewerage investigations arising from developer proposals at the pre-development application stage.

To date Wyong Council has absorbed these costs. However, it now considers it appropriate to commence recovering these costs. This will bring Council in line with other authorities such as Sydney Water, Hunter Water and Gosford City Council who have similar arrangements in place.

The Council proposed a fixed fee arrangement based on average resources required. Fees are proposed at three levels of development. These are:

- ▼ Category 1 – Deemed Major Developments. These are defined as residential properties of 10 apartments or more, greater than 5 lot Torrens title subdivisions, and factories and commercial properties (greater than 2000 m<sup>2</sup> gross floor area).
- ▼ Category 2 – Minor Developments. These are defined as Dual Occupancies and residential properties with up to 10 apartments, or up to and including 5 lot Torrens title subdivisions and factories and commercial properties (up to and including 2000 m<sup>2</sup> gross floor area).
- ▼ Category 3 – Single Dwelling and Extensions. No charge.

The proposed fees are shown in Table 11.21 below.

**Table 11.21 Wyong Shire Council: Proposed development investigation fee for water and sewerage development proposals (\$2009/10)**

<b>Category 1 - Deemed Major Developments</b>	<b>Category 2 - Deemed Minor Developments</b>	<b>Category 3 - Single Dwelling and Extensions</b>
\$641.30	\$278.30	Nil

**Note:** Charge to commence in 2009/10. Charge to be indexed by CPI.

#### Draft decision

- 44 IPART's draft decision is that Wyong Council can introduce a new miscellaneous charge – a development investigation fee for water and sewerage development proposals - in 2009/10 at the levels shown in Table 11.22, and maintain these prices in real terms in the remaining years of the determination period.

**Table 11.22 Wyong Shire Council: Draft decision on development investigation fee for water and sewerage development proposals (\$2009/10)**

<b>Category 1 - Deemed Major Developments</b>	<b>Category 2 - Deemed Minor Developments</b>	<b>Category 3 - Single Dwelling and Extensions</b>
\$641.30	\$278.30	Nil

**Note:** Charge to commence in 2009/10. Charge to be indexed by CPI.

#### All other miscellaneous and ancillary charges

Wyong Council proposed maintaining all other miscellaneous and ancillary charges in real terms. These charges were subject to detailed assessment at the last determination. IPART believes the proposed increases are reasonable. IPART also signals its intention to conduct an extensive review of miscellaneous and ancillary charges for the 2013 Determination.

#### Draft decision

- 45 IPART's draft decision is that Wyong Council can maintain all other miscellaneous and ancillary charges in real terms.

## 12 Implications of pricing decisions for Gosford City Council

Throughout the review process, IPART has considered the impact of maximum prices on Gosford Council, its customers and the environment. It has balanced the interests of each of the following matters in accordance with section 15 of the IPART Act:

- ▼ consumer protection—protecting consumers from abuses of monopoly power; standards of quality, reliability and safety of the services concerned; social impact of decisions; effect on inflation
- ▼ economic efficiency—greater efficiency in the supply of services; the need to promote competition; effect of functions being carried out by another body
- ▼ financial viability—rate of return on public sector assets including dividend requirements; impact on pricing of borrowing, capital and dividend requirements of agencies
- ▼ environmental protection—promotion of ecologically sustainable development via appropriate pricing policies; considerations of demand management and least-cost planning.<sup>101</sup>

Overall, IPART is satisfied that the implications of its findings for customers, economic efficiency, the environment and financial outcomes for Gosford Council are appropriately balanced.

This chapter explains IPART's assessment of the implications of this determination. Section 12.1 discusses the implications for customers; sections 12.2 and 12.3 outline the implications for service standards and financial outcomes respectively, section 12.4 discusses the impact on the consumer price index (CPI) and section 12.5 details the implications for the environment.

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<sup>101</sup> The section 15 requirements are listed in full in Appendix A.

## 12.1 Implications for customers

In reaching its decisions, IPART considered the likely impact on Gosford Council's residential, commercial and industrial customers. In particular, it considered the affordability of water services for high and low water users and vulnerable customers, and the quality of the services customers receive. It considers that these impacts are well balanced against the other matters it is required to consider under section 15.

IPART is conscious of the economic importance of water and the long term implications for customers of sustainable water, sewerage and stormwater drainage services. It is also conscious that Gosford Council serves a large number of customers, and that the household income of these customers varies considerably with a large proportion of pensioners and low income households.

The size of Gosford Council's forecast capital and operating expenditures will mean that these customers will face significant increases in the cost of water, sewerage and stormwater drainage services. Combined water, sewerage and stormwater drainage bills for all users are expected to increase in each year of the determination. However, IPART considers that these increases are warranted to ensure Gosford Council's financial viability through a period of intensive capital expenditure and to ensure that customers have access to a sustainable water supply of appropriate quality and to the other services provided by Gosford Council. Increases are also necessary to ensure that prices reflect the efficient costs of producing water so that water is not over-used.

The key implications for customers are set out in the following sections.

### 12.1.1 Residential customers

IPART's analysis of the impact on Gosford Council's residential customers concentrated on the overall impact on total bills. It looked at how the increased bills compare with the past costs of these services, and how the size of these bill increases vary with water usage. A summary of water, sewerage and stormwater drainage bills for residential customers from 2006/07 to 2012/13 is provided in Table 12.1 below.



**Table 12.1 Summary of annual bills for individually metered residential properties with water, sewerage and stormwater drainage services from 2006/07 to 2012/13 for Gosford City Council (\$2008/09)**

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	Change 06/07 to 12/13
100kL pa	671	694	716	774	803	831	860	189
% increase		3.4%	3.2%	8.2%	3.6%	3.5%	3.5%	28.2%
200kL pa	788	833	883	945	978	1,013	1,049	261
% increase		5.8%	5.9%	7.1%	3.5%	3.6%	3.5%	33.1%
300kL pa	905	973	1,050	1,116	1,154	1,196	1,237	332
% increase		7.5%	7.9%	6.4%	3.4%	3.6%	3.5%	36.7%
400kL pa	1,022	1,113	1,217	1,287	1,330	1,378	1,426	404
% increase		8.9%	9.3%	5.8%	3.3%	3.6%	3.5%	39.5%
750kL pa	1,432	1,602	1,801	1,886	1,945	2,016	2,087	655
% increase		11.8%	12.5%	4.7%	3.2%	3.7%	3.5%	45.7%

**Note:** This excludes charges related to Gosford Council's contribution to the Climate Change Fund.

Between 2006/07 and 2008/09 water, sewerage and stormwater drainage bills for residential customers (with average water consumption of 200kL per year<sup>102</sup>) increased by an average of 5.9 per cent per annum (in real terms). Residential customers will face additional increases in their water, sewerage and stormwater drainage bills, with the bill of a household with average water consumption increasing by a total of \$166 (or 18.8 per cent) in real terms by the end of the determination period (or 4.7 per cent per annum on average). This equates to a total increase of 33.1 per cent (or 4.9 per cent per annum on average) over the two determination periods.<sup>103</sup>

The amount of the increase will vary depending on the household's water consumption. For example, households with consumption of 100kL per annum (whose bills increased by 3.3 per cent (real) on average between 2006/07 and 2008/09) will face real bill increases of 4.7 per cent annually (on average) over the determination period. On the other hand, households with consumption of 750kL per annum (whose bills increased by 12.1 per cent (real) on average between 2006/07 and 2008/09) will face real bill increases of 3.8 per cent annually (on average) over the 2009 determination period.

<sup>102</sup> The results of IPART's 2008 household survey found that average annual residential household consumption in Gosford was 166kL in 2008. See IPART, *Residential energy and water use in Hunter, Gosford and Wyong*, December 2008, p 45. However, this consumption is affected by restrictions and in its submission Gosford City Council forecast that average annual residential household consumption will increase to 199kL by 2012/13. Using 200kL per year for all agencies also allows comparisons to be drawn between bills.

<sup>103</sup> The 2006 Determination and 2009 Determination.

### 12.1.2 Commercial and industrial customers

As with residential customers, IPART's analysis of the impact of its decisions on non-residential customers considered the overall impact on these customers' total bills. However, because commercial and industrial customers are more diverse in terms of their water usage patterns, it is more difficult to draw general conclusions about the impact of IPART's decision on this group of customers.

For commercial and industrial customers, the combined water, sewerage and stormwater drainage bill of a customer with a 20mm meter that consumes 300kL of water per year will increase by a total of \$146 (or 16.6 per cent) in real terms by the end of the determination period. The bill of a customer with an 80mm meter that consumes 10,000kL of water per year will increase by a total of \$4,160 (or 16.1 per cent).

Table 12.2 below sets out the impacts on the bills of customers with 20mm meters that consume 300kL of water per year, customers with 32mm meters that consume 1,000kL of water per year and customers with 80mm meters that consume 10,000kL of water per year.

**Table 12.2 Gosford City Council: Individually metered non-residential properties with water, sewerage and stormwater drainage services – impact of prices (\$2008/09)**

Water use (kL)	Meter size	2008/09	2009/10		2010/11		2011/12		2012/13	
		Bills	Bills	Increase	Bills	Increase	Bills	Increase	Bills	Increase
300	20mm	880	928	5.5%	958	3.2%	992	3.5%	1,026	3.4%
1,000	32mm	2,722	2,866	5.3%	2,957	3.2%	3,062	3.5%	3,165	3.4%
10,000	80mm	25,827	27,132	5.1%	27,984	3.1%	28,989	3.6%	29,987	3.4%

**Note:** This excludes charges related to Gosford Council's contribution to the Climate Change Fund.

**Note:** The discharge factor is assumed to be 80%.

### 12.1.3 Affordability and social programs

IPART is conscious that price increases could make it difficult for some customers to pay their water bills. Although submissions have noted that a particularly large proportion of the Councils' residents have low incomes,<sup>104</sup> IPART's household survey found that characteristics such as home ownership status and household size are more strongly associated with payment difficulties than household income.<sup>105</sup>

<sup>104</sup> See, for example, Public Interest Advocacy Centre (PIAC) submission, October 2008; and NSW Council of Social Service (NCOSS), October 2008. IPART's household survey found that 32 per cent of households in Gosford have incomes under \$31,200, while 14 per cent have incomes over \$104,000. See IPART, *Residential Energy and Water Use in the Hunter, Gosford and Wyong – Results from the 2008 household survey*, December 2008, Table 7, Appendix E.

<sup>105</sup> Ibid, p 76.

Also of note is that only 10 per cent of respondents (across the Hunter and Central Coast areas) reported difficulties with paying their water bills in the last three years. Respondents were also less likely to experience payment difficulties with their water bills than their gas and electricity bills.<sup>106</sup>

However, IPART recognises that some customers will experience payment difficulties in the 2009 determination period. IPART considers that customer-impact mitigation is primarily the responsibility of the Government and Gosford Council, as part of their broader social policies, rather than a role that should be undertaken as part of pricing policies. Nevertheless, IPART is concerned to ensure that Gosford Council has appropriate measures in place to assist financially disadvantaged customers who may have difficulty in paying their bills. Such measures may include special payment arrangements and financial assistance for the purchase and installation of water saving devices.

In its Issues Paper, IPART asked the Councils to identify the potential customer impacts of their proposals, including options explored to mitigate or minimise these impacts.<sup>107</sup> IPART considers that Gosford Council has not addressed this issue sufficiently in its submission. Stakeholder submissions were also critical of the Councils for failing to outline what measures they propose to alleviate the financial burden on vulnerable customers.<sup>108</sup>

However, IPART notes Gosford Council's intention to develop assistance measures having regard to the results of IPART's household survey of customers in the Hunter, Gosford and Wyong regions. This survey was published by IPART in December 2008.<sup>109</sup> Therefore, IPART considers that Gosford Council now has sufficient information to develop assistance measures for customers facing financial hardship.

### Pensioner rebates

Eligible pensioners currently receive a rebate on the quarterly service charge for water and sewerage. However, the value of this rebate is capped at \$87.50 per annum for each of their water and sewerage charges (ie, a maximum total rebate of \$175) under section 575 of the *Local Government Act 1993* (the Local Government Act). As noted by Gosford Council:<sup>110</sup>

The Local Government Act prescribes the value of pensioner rebate that Council is able to provide. As such, any changes to the value of pensioner rebates provided by Council would require modification of the Local Government Act.

<sup>106</sup> Ibid, p 84.

<sup>107</sup> IPART, *Review of Prices for water, sewerage and stormwater services for Gosford City Council and Wyong Shire Council, Issues Paper*, July 2008, p 39.

<sup>108</sup> See, for example, Public Interest Advocacy Centre (PIAC) submission, October 2008; and NSW Council of Social Service (NCOSS), October 2008.

<sup>109</sup> IPART, *Residential Energy and Water Use in the Hunter, Gosford and Wyong – Results from the 2008 household survey*, December 2008, available from: [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).

<sup>110</sup> Gosford City Council Submission, September 2008, p 56.

Given that the pensioner rebate is fixed, Gosford Council pensioners will experience the same increase in their bills (in dollar terms) as those customers not eligible for pensioner rebates. Furthermore, given that pensioners currently pay a lower bill (given the pensioner rebate) they will experience a greater increase in percentage terms. Table 12.3 shows the impact on the typical pensioner bill at 200kL/year consumption.

**Table 12.3 Comparison between full bills for residential customers with water, sewerage and stormwater drainage services for Gosford City Council (\$2008/09)**

	2008/09	2009/10	2010/11	2011/12	2012/13	Change 2008/09 to 2012/13
Full bills	883	945	978	1013	1049	166
% Increase		7.11%	3.49%	3.58%	3.48%	18.80%
After Pensioner rebate	708	770	803	838	874	166
% Increase		8.86%	4.28%	4.36%	4.21%	23.45%

**Note:** Assumes 200kL per year consumption.

The rebate available to Sydney Water Corporation (Sydney Water) pensioners provides a rebate in percentage terms on the different components of the bill. This has the effect of reducing the impact of price rises on pensioners. Sydney Water's 2008 Annual Report states:<sup>111</sup>

Sydney Water gives a rebate on water, sewerage and stormwater drainage service charges to pensioner concession cardholders. The rebate covers 100% of the water service charge, 50% of the stormwater drainage service charge and 85% of the sewer charge. In 2007-08, over 210,000 pensioner households received a rebate on water, sewerage and stormwater service charges. The typical rebate amount was over \$300 a year.

There would appear to be a strong case for increasing and/or altering the way that the Gosford Council pensioner rebate is calculated in order to mitigate the impact of price rises on pensioners. Pointing to the Sydney Water pensioner rebates, the National Seniors Association (NSA) argues that the rebates provided to pensioners in the Central Coast region are inadequate.<sup>112</sup> The Public Interest Advocacy Centre (PIAC) has urged IPART to recommend an amendment to the Local Government Act to increase the pensioner rebate.<sup>113</sup>

**IPART agrees with views expressed by PIAC and the NSA and recommends that the Government undertakes a review of the sufficiency of the current rebates and the way in which they are calculated and that the Local Government Act be**

<sup>111</sup> Sydney Water Corporation, *2008 Annual Report, Appendix - Social programs*, sourced on 6 January 2009 from: <http://www.sydneywater.com.au/annualreport/Appendixes/index.cfm>.

<sup>112</sup> The NSA has asked IPART to recommend to the Government a specific water and sewerage charge for pensioners in the Councils that mimics the rebates received by Sydney Water's pensioner customers. See: National Seniors Association submission, October 2008.

<sup>113</sup> Public Interest Advocacy Centre (PIAC) submission, October 2008.

**amended to reflect any decisions the Government makes to amend the rebates following completion of the review.**

## 12.2 Service standards

Apart from considering the impact of its decisions on increases to customers' bills, IPART sought to ensure that its decisions would not adversely affect the standards of service delivered to customers. IPART has set prices in the expectation that current service levels will be maintained and that cost reductions and efficiency savings will not be obtained at the expense of service standards.

Unlike the other metropolitan water agencies, the Councils do not have operating licences that set targets, outline compliance requirements and establish customer contracts. Instead, the Councils are licensed Water Supply Authorities under the *Water Management Act 2000* and as such, are required, under the *Local Government Act 1993* section 402, to develop annual management plans with respect to all their activities, including water and sewerage services. The Councils are also responsible to Department of Water and Energy (DWE) with respect to water extraction licenses under the *Water Management Act 2000* and the *Water Act 1912*.<sup>114</sup>; the Department of Environment and Climate Change (DECC)<sup>115</sup> for quality and quantity conditions for discharge from each sewerage treatment works under the *Protection of the Environment Operations Act 1997*, and NSW Health for the quality and safety of the Councils' drinking water.

In addition, IPART has revised the output measures introduced in the 2006 Determination to reflect the nature of the capital program over the upcoming determination period and the observations of Halcrow during the review of capital and operating expenditure.<sup>116</sup> These will assist IPART to identify how expenditure proposals will enable Gosford Council to meet its regulatory requirements. A list of output measures for Gosford Council (along with targets) is set out in Appendix B.

## 12.3 Financial outcomes

The decisions made by IPART for this determination should not adversely affect the ability of Gosford Council to operate, maintain, renew and develop the assets required to deliver the regulated services. Gosford Council has a large capital expenditure program for the first two years of the determination period. IPART's analysis and financial modelling indicates that Gosford Council will achieve a credit rating of at least BBB+ in each year of the determination period, with an overall rating of AA+ in the final year of the determination period.

<sup>114</sup> Depending on whether a water sharing plan is in place for that water source.

<sup>115</sup> Formerly the Department of Environment and Conservation (DEC).

<sup>116</sup> The output measures are discussed more fully in Chapter 3.

### 12.3.1 Impact on rate of return

Given the decisions made on pricing mean that the notional revenue is achieved in the final year of the determination, the real pre-tax rate of return on Gosford Council's RAB is expected to be the target rate of 7.0 per cent in the final year of the determination. This calculation is based on the assumptions used in IPART's modelling of the financial impacts of its pricing decisions and depends on Gosford Council achieving the efficiency targets IPART has set.

### 12.3.2 Overall financial strength as assessed by investment category ratings

IPART analysed a range of financial indicators that are commonly used by credit rating agencies to assess an entity's financial capacity and ability to service and repay debt. The Government believes that a BBB rating is the minimum target rating to ensure financial viability. IPART undertook its analysis of financial indicators on the assumption that Gosford Council pays dividends at a rate consistent with a commercial business. That is, IPART has assumed tax equivalent payments of 30 per cent of pre-tax earnings<sup>117</sup> and dividend payments of 50 per cent of post-tax earnings.

IPART's analysis and financial modelling indicate that the maximum prices set in the determination will enable Gosford Council to achieve a credit rating of at least BBB+ in each year of the determination period (see Table 12.4).

**Table 12.4 Financial indicators and credit ratings for Gosford City Council**

	2008/09	2009/10	2010/11	2011/12	2012/13
1. Funds from Operations Interest Cover	5.47	5.57	2.32	3.69	4.31
NSW Treasury ratings (2008)	AAA	AAA	A	AA	AA+
2. Funds from Operations / Total Debt	0.29	0.12	0.07	0.17	0.22
NSW Treasury ratings (2008)	AAA	A	BBB	AA+	AAA
3. Debt gearing (regulatory value)	11%	23%	26%	25%	24%
NSW Treasury ratings (2008)	AA+	AA+	AA+	AA+	AA+
4. Pre-tax Interest Cover	48%	317%	108%	203%	272%
NSW Treasury ratings (2008)	B	AA+	BBB	A+	AA
NSW Treasury overall score and rating					
NSW Treasury total score (0 -10)	7.25	8.5	5.75	8.25	9
Overall rating	A+	AA	BBB+	AA	AA+

<sup>117</sup> Gosford Council is required to pay a dividend for tax equivalents under the DWE Best Practice guidelines. See NSW Government Department of Water and Energy, *Best Practice Management of Water Supply and Sewerage Guidelines*, August 2007.

### 12.3.3 Payment of dividends

A Local Water Utility (LWU) is required to make a payment for tax-equivalents. The DWE Best Practice Guidelines state that:<sup>118</sup>

To ensure ongoing commercial viability, prices should be set so annual cost recovery by a water supply or sewerage business includes taxes or tax-equivalents (excluding income tax). Accordingly all NSW LWUs must make a dividend payment for the amount calculated as the annual tax-equivalent payment (excluding income tax) commencing in 2003/04.

Gosford Council intends to make a payment for tax-equivalents of approximately \$400,000 per annum (\$2008/09).

A LWU is also permitted to pay an annual dividend from the surplus of its business if it has demonstrated best-practice management as defined in the DWE Best Practice Guidelines.<sup>119</sup> Gosford Council has forecast payments of \$1.8 million (\$2008/09) for this annual dividend for each year of the 2009 determination period.

### 12.3.4 Impact on the Consolidated Fund

Under section 16 of the IPART Act, IPART is required to report on the likely impact to the Consolidated Fund if prices are not increased to the maximum levels permitted. As Gosford Council does not contribute to Consolidated Revenue there will be no impact.

## 12.4 Impact on the Consumer Price Index (CPI)

Under section 15 of the IPART Act, IPART is required to consider the effect on general price inflation. Water and sewerage currently comprise 0.77 per cent of the consumer price index (all groups, eight capital cities).<sup>120</sup>

The annual average increase of a water, sewerage and stormwater drainage bill for a customer consuming 200kL per annum is 4.4 per cent for Gosford Council and 5.8 per cent for Wyong Council (in real terms). A weighted average of the increases for Wyong and Gosford Councils is approximately 5.1 per cent.

If all customers in the 8 Australian capital cities faced the same percentage increases in their bills as Gosford and Wyong Councils' customers face then the approximate annual impact on general price inflation is approximately 0.04 per cent.

<sup>118</sup> Ibid., p 16.

<sup>119</sup> Ibid., p 15.

<sup>120</sup> Australian Bureau of Statistics, Consumer Price Index 15<sup>th</sup> Series Weighting Pattern (cat. no. 6430.0).

## 12.5 Implications for the environment

The Government is responsible for determining any negative environmental impacts and imposing standards or requirements on Gosford Council to address them. For instance, DECC is responsible for setting standards for, and monitoring the environmental impacts of, the effluent it discharges from Gosford Council's treatment plants and sewerage systems.

The Government has also established a Climate Change Fund which, among other things, provides rainwater tank rebates and other incentives for households to become water-wise.

Examples of Gosford Council's environmental related programs include:<sup>121</sup>

- ▼ **Water Savings in Schools Program** – offers grants to fund water savings projects. Standard projects include smart water meters or waterless urinals. Alternatively schools may propose other water savings projects.
- ▼ **Mooney Mooney Cheero Point Sewerage Scheme** – this is a Priority Sewerage Project that will provide sewerage services to the unsewered villages for Mooney Mooney and Cheero Point adjacent to the Hawkesbury River. It is intended to reduce community public health risks and minimise adverse environmental impacts on local waterways and residential properties.
- ▼ **Sewerage Enhancement Program** – this program has been developed to improve the performance of the sewerage system, particularly with respect to chokes, breaks and overflows to the environment.

IPART allows Gosford Council to fully recover, through its prices, the costs it efficiently incurs in meeting its environmental obligations.

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<sup>121</sup> See: Gosford City Council Submission, September 2008; and [www.gosford.nsw.gov.au](http://www.gosford.nsw.gov.au).



## 13 Implications of pricing decisions for Wyong Shire Council

Throughout the review process, IPART has considered the impact of maximum prices on Wyong Council, its customers and the environment. It has balanced the interests of each of the following matters in accordance with section 15 of the IPART Act:

- ▼ consumer protection—protecting consumers from abuses of monopoly power; standards of quality, reliability and safety of the services concerned; social impact of decisions; effect on inflation
- ▼ economic efficiency—greater efficiency in the supply of services; the need to promote competition; effect of functions being carried out by another body
- ▼ financial viability—rate of return on public sector assets including dividend requirements; impact on pricing of borrowing, capital and dividend requirements of agencies
- ▼ environmental protection—promotion of ecologically sustainable development via appropriate pricing policies; considerations of demand management and least-cost planning.<sup>122</sup>

Overall, IPART is satisfied that the implications of its findings for customers, economic efficiency, the environment and financial outcomes for Wyong Council are appropriately balanced.

This chapter explains IPART's assessment of the implications of this determination. Section 13.1 discusses the implications for customers; sections 13.2 and 13.3 outline the implications for service standards and financial outcomes respectively, section 13.4 discusses the impact on the consumer price index (CPI) and section 13.5 details the implications for the environment.

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<sup>122</sup> The section 15 requirements are listed in full in Appendix A.

## 13.1 Implications for customers

In reaching its decisions, IPART considered the likely impact on Wyong Council's residential, commercial and industrial customers. In particular, it considered the affordability of water services for high and low water users and vulnerable customers, and the quality of the services customers receive. It considers that these impacts are well balanced against the other matters it is required to consider under section 15.

IPART is conscious of the economic importance of water and the long term implications for customers of sustainable water, sewerage and stormwater drainage services. It is also conscious that Wyong Council serves a large number of customers, and that the household income of these customers varies considerably with a large proportion of pensioners and low income households.

The size of Wyong Council's forecast capital and operating expenditures will mean that these customers will face significant increases in the cost of water and sewerage services. In addition, Wyong Council is for the first time introducing a separate stormwater drainage charge, although the implementation of this charge was revenue neutral. Combined water, sewerage and stormwater drainage bills for all users are expected to increase in each year of the determination. However, IPART considers that these increases are warranted to ensure Wyong Council's financial viability through a period of intensive capital expenditure and to ensure that customers have access to a sustainable water supply of appropriate quality and to the other services provided by Wyong Council.

The key implications for customers are set out in the following sections.

### 13.1.1 Residential customers

IPART's analysis of the impact on Wyong Council's residential customers concentrated on the overall impact on total bills. It looked at how the increased bills compare with the past costs of these services, and how the size of these bill increases vary with water usage. A summary of water, sewerage and stormwater drainage bills for residential customers from 2006/07 to 2012/13 is provided in Table 13.1 below.

**Table 13.1 Summary of annual bills for individually metered residential properties with water, sewerage and drainage services from 2006/07 to 2012/13 for Wyong Shire Council (\$2008/09)**

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	Change 2006/07 to 2012/13
100kL pa	621.10	647.37	676.78	761.64	794.55	830.21	869.57	
% increase		4.2%	4.5%	10.1%	4.3%	4.5%	4.7%	40.0%
200kL pa	740.16	788.75	843.58	932.42	970.93	1,012.98	1,058.55	
% increase		6.6%	7.0%	8.7%	4.1%	4.3%	4.5%	43.0%
300kL pa	859.21	930.13	1,010.38	1,103.20	1,147.31	1,195.76	1,247.53	
% increase		8.3%	8.6%	9.2%	4.0%	4.2%	4.3%	45.2%
400kL pa	978.27	1,071.50	1,177.18	1,273.98	1,323.70	1,378.54	1,436.51	
% increase		9.5%	9.9%	8.2%	3.9%	4.1%	4.2%	46.8%
750kL pa	1,394.96	1,566.33	1,760.98	1,871.71	1,941.04	2,018.27	2,097.94	
% increase		12.3%	12.4%	6.3%	3.7%	4.0%	3.9%	50.4%

Between 2006/07 and 2008/09 water, sewerage and stormwater drainage bills for residential customers (with typical water consumption of 200kL per year<sup>123</sup>) increased by an average of 6.45 per cent per annum (in real terms). Residential customers will face additional increases in their total bills, with the bill of a household with typical water consumption (200kL/pa) increasing by a total of \$215 (or 25.5 per cent) in real terms by the end of the determination period (or 5.8 per cent per annum on average).

The percentage increase in residential customers' combined annual bills for water, sewerage and stormwater services as a result of the draft determination varies, depending on the household's water consumption. For example, Table 13.1 shows that households with consumption of 100kL per annum will face average real bill increases of 6.5 per cent per annum over the determination period. In comparison, households with consumption of 750kL per annum will face average real bill increases of 4.5 per cent per annum.<sup>124</sup> In dollar terms, households with higher water consumption will face larger bill increases than those with lower consumption. Over the next four years households with consumption of 100kL will face bill increases of \$193 in total whilst those households with consumption of 750kL will face bill

<sup>123</sup> The results of IPART's 2008 household survey found that average annual residential household consumption in Wyong was 152kL in 2008. See IPART, *Residential energy and water use in Hunter, Gosford and Wyong*, December 2008, p 45. However, this consumption is affected by restrictions. Using 200kL per year for all agencies also allows comparisons to be drawn between bills.

<sup>124</sup> It should be noted that households with higher levels of consumption experienced much higher bill increases under the last determination. For example, while the bills of those with consumption of 100kL pa increased by an average of 3.3 per cent (real) per year between 2006/07 and 2008/09, the bills of those with consumption of 750kL pa increased by an average 12.5 per cent (real) per year.

increases of \$337 as the water usage charge rises from \$1.67 per kL in 2008/09 to \$1.89 per kL in 2012/13.

### 13.1.2 Commercial and industrial customers

As with residential customers, IPART's analysis of the impact of its decisions on non-residential customers considered the overall impact on these customers' total bills. However, because commercial and industrial customers are more diverse in terms of their water usage patterns, it is more difficult to draw general conclusions about the impact of IPART's decision on this group of customers.

For commercial and industrial customers, the combined water, sewerage and stormwater drainage bill of a customer with a 20mm meter that consumes 300kL of water per year will increase by a total of \$237 (or 23.5 per cent) in real terms by the end of the determination period. The bill of a customer with an 80mm meter that consumes 10,000kL of water per year will increase by a total of \$3,614 (or 17.5 per cent).

Table 13.2 below sets out the impacts on the bills of customers with 20mm meters that consume 300kL of water per year, customers with 32mm meters that consume 1,000kL of water per year and customers with 80mm meters that consume 10,000kL of water per year.

**Table 13.2 Wyong Shire Council: Individually metered non-residential properties with water, sewerage and stormwater drainage services – impact of prices (\$2008/09)**

Water use (kL)	Meter size	2008/09			2009/10		2010/11		2011/12		2012/13	
		Bills	Bills	Increase	Bills	Increase	Bills	Increase	Bills	Increase	Bills	Increase
300	20mm	1,010	,103	9.2%	1,147	4.0%	1,196	4.2%	1,247	4.3%		
1,000	32mm	2,652	2,775	4.6%	2,929	5.6%	3,099	5.8%	3,283	5.9%		
10,000	80mm	20,616	21,105	2.4%	22,059	4.5%	23,123	4.8%	24,230	4.8%		

**Note:** The discharge factor is assumed to be 80%.

### 13.1.3 Social programs

As already mentioned IPART's draft decision is to set a commercial rate of return of 7 per cent (real pre-tax) on the Wyong Council RAB. This was done to ensure that prices reflect the efficient costs of providing the services, including the opportunity cost of the capital employed, and to ensure Wyong Council's water, sewerage and drainage services remain financial viable. They will also ensure that Council can continue to invest in necessary infrastructure into the future. The decision, along with the increase in operational expenditure allowances, means that the maximum prices determined by IPART will lead to higher bills for Wyong Council's customers.

IPART has mitigated the price increases as far as possible by deferring recovery of the cost of capital expenditure undertaken solely for growth in the Wyong Shire until population growth in the Shire occurs. Further, after deferring recover of these costs, IPART has decided to gradually increase the prices over the period of the determination (glide path). This will mean that prices do not reach the efficient lowered level until 2012/13.

The decision to defer recovery of the cost of capital expenditure for growth will saves current typical<sup>125</sup> customers approximately \$151 over the next four years. The decision to increase prices using a glide path will save the typical customer approximately a further \$351 over the next four years.

Nevertheless, IPART recognises that its decision to increase prices will particularly impact on financially disadvantaged customers. Furthermore, submissions have noted that a particularly large proportion of residents of Wyong Shire have low incomes.<sup>126</sup> However, IPART's customer survey<sup>127</sup> has revealed that only 10 per cent of respondents reported having difficulty with paying their water bills in the last three years.

IPART considers that customer-impact mitigation that targets specific groups of customers is primarily the responsibility of the Government and Wyong Council, as part of their broader social policies, rather than a role that should be undertaken as part of pricing policies<sup>128</sup>. However, IPART is concerned to ensure that Wyong Council has appropriate measures in place to assist this 10 per cent of financially disadvantaged customers who may have difficulty in paying their bills. Such measures may include special payment arrangements and financial assistance for the purchase and installation of water saving devices.

In its Issues Paper, IPART asked the Councils to identify the potential customer impacts of their proposals, including options explored to mitigate or minimise these impacts.<sup>129</sup> IPART considers that Wyong Council has not addressed this issue sufficiently in its submission. Stakeholder submissions were also critical of Wyong Council for failing to outline what measures it proposed to take to alleviate the financial burden on vulnerable customers.<sup>130</sup> IPART considers that Wyong Council should now be in a position to develop assistance measures for customers facing

<sup>125</sup> Residential customers using 200kL water per annum.

<sup>126</sup> See, for example, Public Interest Advocacy Centre (PIAC) submission, October 2008; and NSW Council of Social Service (NCOSS), October 2008.

<sup>127</sup> IPART, *Residential Energy and Water Use in the Hunter, Gosford and Wyong – Results from the 2008 household survey*, December 2008, available from: [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au)

<sup>128</sup> Governments and Councils can target assistance to those in need. If IPART artificially lowers prices to benefit low income households there is the unintended but unavoidable consequence of lowering prices to those who are well off and can afford to pay the full cost of the water they use.

<sup>129</sup> IPART, *Review of Prices for water, wastewater and stormwater services for Gosford City Council and Wyong Shire Council, Issues Paper*, July 2008, p 39.

<sup>130</sup> See, for example, Public Interest Advocacy Centre (PIAC) submission, October 2008; and NSW Council of Social Service (NCOSS), October 2008.

financial hardship and provide details of these programs in its submission to this draft report.

### Pensioner rebates

Eligible pensioners currently receive a rebate on the quarterly service charge for water, sewerage and stormwater drainage. However, the value of this rebate is capped at \$87.50 per annum for each of their water and sewerage charges (ie, a maximum total rebate of \$175) under section 575 of the *Local Government Act 1993* (the Local Government Act). As noted by Gosford Council, any changes to the value of pensioner rebates require modification of the Local Government Act.<sup>131</sup>

Given that the pensioner rebate is fixed, Wyong Council pensioners will experience the same increase in their bills (in dollar terms) as those customers not eligible for pensioner rebates. Furthermore, given that pensioners currently pay a lower bill (given the pensioner rebate) they will experience a greater increase in percentage terms. Table 13.4 shows the impact on the typical pensioner bill at 200kL/year consumption.

**Table 13.3 Full Bills and Pensioner Rebate Bills for Wyong Shire Council (200kL, \$2008/09)**

	2008/09	2009/10	2010/11	2011/12	2012/13	Change 2008/09 to 2012/13
Wyong Full Bills	844	932	971	1,013	1,059	
Increase (\$)		88.84	38.51	42.05	45.57	214.97
% Increase		10.5%	4.1%	4.3%	4.5%	25.5%
Wyong Bills after Rebate	669	757	796	838	884	
Increase (\$)		88.84	38.51	42.05	45.57	214.97
% Increase		13.3%	5.1%	5.3%	5.4%	32.2%

**Source:** IPART modelling of prices and pensioner rebates for Wyong Shire Council.

The rebate available to Sydney Water Corporation (Sydney Water) pensioners provides a rebate in percentage terms on the different components of the bill. This has the effect of reducing the impact of price rises on pensioners. Sydney Water's 2008 Annual Report states:<sup>132</sup>

Sydney Water gives a rebate on water, wastewater and stormwater drainage service charges to pensioner concession cardholders. The rebate covers 100% of the water service charge, 50% of the stormwater drainage service charge and 85% of the sewer charge. In 2007-08, over 210,000 pensioner households received a rebate on water, wastewater and stormwater service charges. The typical rebate amount was over \$300 a year.

<sup>131</sup> Gosford City Council Submission, September 2008, p 56.

<sup>132</sup> Sydney Water Corporation, *2008 Annual Report, Appendix – Social programs*, sourced on 6 January 2009 from: <http://www.sydneywater.com.au/annualreport/Appendixes/index.cfm>.

There would appear to be a strong case for increasing and/or altering the way that the Wyong Council pensioner rebate is calculated in order to mitigate the impact of price rises on pensioners. Pointing to the Sydney Water pensioner rebates, the National Seniors Association (NSA) argues that the rebates provided to Councils pensioners are inadequate.<sup>133</sup> The Public Interest Advocacy Centre (PIAC) has urged IPART to recommend an amendment to the Local Government Act to increase the pensioner rebate.<sup>134</sup>

**IPART agrees with views expressed by PIAC and the NSA and recommends that the Government undertakes a review of the sufficiency of the current rebates and the way in which they are calculated and that the Local Government Act be amended to reflect any decisions the Government makes to amend the rebates following completion of the review.**

### 13.2 Service standards

Apart from considering the impact of its decisions on increases to customers' bills, IPART sought to ensure that its decisions would not adversely affect the standards of service delivered to customers. IPART has set prices in the expectation that current service levels will be maintained and that cost reductions and efficiency savings will not be obtained at the expense of service standards.

Unlike the other metropolitan water agencies, the Councils do not have operating licences that set targets, outline compliance requirements and establish customer contracts. Instead, the Councils are licensed Water Supply Authorities under the *Water Management Act 2000* and as such, are required, under *Local Government Act 1993* section 402, to develop annual management plans with respect to all their activities, including water and wastewater services. The Councils are also responsible to Department of Water and Energy (DWE) with respect to water extraction licenses under the *Water Management Act 2000* and the *Water Act 1912*;<sup>135</sup> the Department of Environment and Climate Change (DECC)<sup>136</sup> for quality and quantity conditions for discharge from each wastewater treatment works under the *Protection of the Environment Operations Act 1997*, and NSW Health for the quality and safety of the Councils' drinking water.

In addition, IPART has revised the output measures introduced in the 2006 Determination to reflect the nature of the capital program over the upcoming determination period and the observations of Halcrow during the review of capital and operating expenditure.<sup>137</sup> These will assist IPART to identify how expenditure

<sup>133</sup> The NSA has asked IPART to recommend to the Government a specific water and sewerage charge for pensioners in the Councils that mimics the rebates received by Sydney Water's pensioner customers. See: National Seniors Association submission, October 2008.

<sup>134</sup> Public Interest Advocacy Centre (PIAC) submission, October 2008.

<sup>135</sup> Depending on whether a water sharing plan is in place for that water source.

<sup>136</sup> Formerly the Department of Environment and Conservation (DEC).

<sup>137</sup> The output measures are discussed more fully in Chapter 3.

proposals will enable Wyong Council to meet its regulatory requirements. A list of output measures for Wyong Council (along with targets) is set out in Appendix B.

### 13.3 Financial outcomes

The decisions made by IPART for this determination should not adversely affect the ability of Wyong Council to operate, maintain, renew and develop the assets required to deliver the regulated services. In this regard, IPART in its modelling of proposed prices for Wyong Shire Council calculates a set of financial indicators and credit ratings. The credit ratings are used by IPART to determine whether the proposed prices are sufficient to ensure the council's continued financial viability. Under IPART's preferred pricing scenario for the draft determination Wyong Council will achieve a credit rating of BBB+ by the end of the determination period.

#### Impact on rate of return

Given the decisions made on pricing mean that the notional revenue is achieved in each year, the real pre-tax rate of return on Wyong Council's Regulatory Asset Base (RAB) is expected to be 7.0 per cent. This calculation is based on the assumptions used in IPART's modelling of the financial impacts of its pricing decisions and depends on Wyong Council achieving the efficiency targets IPART has set.

#### 13.3.2 Overall financial strength as assessed by investment category ratings

IPART analysed a range of financial indicators that are commonly used by credit rating agencies to assess an entity's financial capacity and ability to service and repay debt. The Government believes that a BBB rating is the minimum target rating to ensure financial viability. In completing its analysis of financial indicators, IPART has assumed dividend payments of tax equivalents consistent with Wyong Council's requirements under the DWE Best Practice Guidelines<sup>138</sup> and a modest dividend payment of between 15-20 per cent of post-tax earnings.<sup>139</sup>

IPART's analysis and financial modelling indicate that the maximum prices set in the determination will enable Wyong Council to achieve a credit rating of at least BB in each year of the determination period (see Table 13.4).

<sup>138</sup> DWE, *Best Practice Management of Water Supply and Sewerage Guidelines*, August 2007, p 16.

<sup>139</sup> IPART would normally allow a post tax dividend payment of 50 per cent of post tax earnings however a lower level is consistent with normal commercial enterprises that are undertaking large scale capital investment.



**Table 13.4 Financial indicators and credit ratings for Wyong Shire Council**

	2008/09	2009/10	2010/11	2011/12	2012/13
<b>Water</b>					
NSW Treasury total score (0 -10)	1.5	1.5	0.3	0.3	1.0
Overall rating	B+	B+	B	B	B+
<b>Sewerage</b>					
NSW Treasury total score (0 -10)	8.0	8.5	7.8	8.5	8.8
Overall rating	AA	AA	A+	AA	AA
<b>Stormwater drainage</b>					
NSW Treasury total score (0 -10)	10.0	10.0	10.0	10.0	7.3
Overall rating	AAA	AAA	AAA	AAA	A+
<b>Combined service</b>					
1. Funds from Operations Interest Cover	1.80	2.18	1.34	1.66	1.93
NSW Treasury rating (2008)	BBB+	A	BB	BBB	BBB+
2. Funds from Operations / Total Debt	0.05	0.04	0.02	0.04	0.06
NSW Treasury rating (2008)	BB+	BB+	B	BB+	BBB
3. Debt gearing (regulatory value)	35%	57%	58%	57%	55%
NSW Treasury rating (2008)	AA+	A	A	A	A+
4. Pre-tax Interest Cover	-4%	162%	41%	73%	107%
NSW Treasury rating (2008)	<B	BBB+	B	B+	BBB
<b>NSW Treasury overall score and rating</b>					
NSW Treasury total score (0 -10)	4.25	5.00	2.00	3.50	5.00
Overall rating	BBB	BBB+	BB	BB+	BBB+

**Note:** Assumes a WACC of 7% with groundwater assets included.

**Source:** Secretariat modelling of Wyong Shire Council's Pricing.

### 13.3.3 Payment of dividends

A Local Water Utility (LWU) is required to pay a dividend for tax-equivalents. The DWE Best Practice Guidelines state that:<sup>140</sup>

To ensure ongoing commercial viability, prices should be set so annual cost recovery by a water supply or sewerage business includes taxes or tax-equivalents (excluding income tax). Accordingly all NSW LWUs must make a dividend payment for the amount calculated as the annual tax-equivalent payment (excluding income tax) commencing in 2003/04.

Wyong Council intends to make a dividend payment for tax-equivalents of \$308,000 per annum (\$2008).<sup>141</sup>

<sup>140</sup> NSW Government Department of Water and Energy, *Best-Practice Management of Water Supply and Sewerage Guidelines*, August 2007, p 16.

<sup>141</sup> Wyong Shire Council submission, September 2008, p 30.

An LWU is also permitted to pay an annual dividend from the surplus of its business if it has demonstrated best-practice management as defined in the DWE Best Practice Guidelines.<sup>142</sup> Wyong Council has stated that it does not intend to pay such a dividend in the short to medium term.<sup>143</sup>

#### 13.3.4 Impact on the Consolidated Fund

Under section 16 of the IPART Act, IPART is required to report on the likely impact to the Consolidated Fund if prices are not increased to the maximum levels permitted. As Wyong Council does not contribute to Consolidated Revenue there will be no impact.

#### 13.4 Impact on the Consumer Price Index (CPI)

Under section 15 of the IPART Act, IPART is required to consider the effect on general price inflation. Water and sewerage currently comprise 0.77 per cent of the consumer price index (all groups, eight capital cities).<sup>144</sup>

The annual average increase of a water, sewerage and stormwater drainage bill for a customer consuming 200kL per annum is 4.4 per cent for Gosford Council and 5.8 per cent for Wyong Council (in real terms). A weighted average of the increases for Wyong and Gosford Councils is approximately 5.1 per cent.

If all customers in the 8 Australia capital cities faced the same percentage increases in their bills as Gosford and Wyong Councils' customers face then the approximate annual impact on general price inflation is approximately 0.04 per cent.

#### 13.5 Implications for the environment

The Government is responsible for determining any negative environmental impacts and imposing standards or requirements on Wyong Council to address them. For instance, DECC is responsible for setting standards for, and monitoring the environmental impacts of, the effluent it discharges from Wyong Council's treatment plants and sewerage systems.

The Government has also established a Climate Change Fund which, among other things, provides rainwater tank rebates and other incentives for households to become water-wise.

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<sup>142</sup> NSW Government Department of Water and Energy, *Best-Practice Management of Water Supply and Sewerage Guidelines*, August 2007, p 15.

<sup>143</sup> Wyong Shire Council submission, September 2008, p 30.

<sup>144</sup> Australian Bureau of Statistics, Consumer Price Index 15<sup>th</sup> Series Weighting Pattern (cat. no. 6430.0).

Examples of Wyong Council's environmental related programs include:<sup>145</sup>

- ▼ **Porter's Creek Stormwater Harvesting Project** – investigation and planning are currently underway to divert excess stormwater around the Porters Creek Wetland for use as environmental flows substitution water at Lower Wyong Weir.
- ▼ **Demand Management Initiatives** – these include rainwater tank rebates, the residential refit program, non-residential water management plans and audits, reticulation system leakage detection programs, system pressure reduction programs and an extensive public education campaign.

IPART allows Wyong Council to fully recover, through its prices, the costs it efficiently incurs in meeting its environmental obligations. However, Halcrow's review recommended that expenditure on rainwater tank rebates should be excluded from Wyong council's operating expenditure requirement as the NSW government operates a rainwater tank program.

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<sup>145</sup> See Wyong Shire Council submission, September 2008.





## Appendices



## A Matters to be considered by IPART under section 15 of the IPART Act

In making determinations IPART is required by the *IPART Act* to have regard to the following matters (in addition to any other matters IPART considers relevant):

- a) the cost of providing the services concerned
- b) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services
- c) the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales
- d) the effect on general price inflation over the medium term
- e) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers
- f) 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
- g) 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
- h) 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
- i) the need to promote competition in the supply of the services concerned
- j) considerations of demand management (including levels of demand) and least cost planning
- k) the social impact of the determinations and recommendations
- l) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).

Table A.1 outlines the sections of the report that address each matter.

**Table A.1 Consideration of Section 15 matters by IPART**

<b>Section 15(1)</b>	<b>Report Reference</b>
a) the cost of providing the services	Chapter 3
b) the protection of consumers from abuses of monopoly power	Whole report
c) the appropriate rate of return and dividends	Chapters 4, 6, 7 and 9
d) the effect on general price inflation	Chapters 12 and 13
e) the need for greater efficiency in the supply of services	Chapters 3, 5, 6, 8 and 9
f) ecologically sustainable development	Chapters 12 and 13
g) the impact on borrowing, capital and dividend requirements	Chapters 12 and 13
h) 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	Appendix D
i) need to promote competition	Not applicable
j) considerations of demand management and least cost planning	Chapters 5, 6, 8, 9 and 10
k) the social impact	Chapters 12 and 13
l) standards of quality, reliability and safety	Chapter 2



## B Output measures

### B.1 Output measures for the Joint Water Supply

1. Completion of the Mardi to Mangrove Link
2. Completion of the Mardi suite of works, including
  - ▼ Mardi Dam Transfer System
  - ▼ Mardi High Lift Pump Station
  - ▼ Mardi Spillway and Bridge
3. Completion of the Mardi Dam pre-treatment project
4. Completion of the stormwater harvesting at Porters Creek project.

### B.2 Output measures for Gosford City Council

1. Completion of the core and advanced asset management framework system improvements
2. Delivery of projects listed in Table B.1 within  $\pm 20$  per cent of cost estimate
3. Additional output measures detailed in Table B.2 as proposed by Gosford Council.<sup>146</sup>

**Table B.1 List of Gosford City Council projects over \$1m with drivers (\$ million 2008/09)**

	Project	Total 2009-2013	Driver	Justification
Water	Water Main Renewals - Unallocated Budget	10.287	Agency defined standard	Improve system reliability, reduce leakage and prevent asset failure
Water	Meter Replacement Program	2.221	Agency defined standard	To improve volume metering accuracy and reliability (this refers to property meters)
Water	WQ 2010 Air Scouring	1.399	Agency defined standard	Improving the quality of drinking water

<sup>146</sup> IPART will liaise with Gosford Council to identify targets for these measures for the final report.

	<b>Project</b>	<b>Total 2009-2013</b>	<b>Driver</b>	<b>Justification</b>
Water	JWS Lower Mooney Dam Remedial/Removal Works	1.289	Agency defined standard	Dam safety committee requirement
Water	WQ 2010 Additional Section Valves	0.155	Agency defined standard	Improving the quality of drinking water
Water	JWS Gosford CBD	1.087	Agency defined standard	Achieve efficiencies by installing a third pipe (for possible future use) when replacing/renewing the water mains.
Water	Contract Management	1.120	Efficiency	Need to ensure contracted works are undertaken in accordance with standards.
Water	WQ 2010	1.362	Compliance with an existing standard	Improving the quality of drinking water
Water	New Water Connection - Unallocated Budget	1.666	Growth	
Water	Salaries Re Developers Dedicated Assets	0.753	Growth	Need to ensure developer provided works are in accordance with standards.
Water	Mardi To Mangrove Transfer System <sup>0</sup>	51.801	Increased requirements of existing customers	Increase system yield
Water	Mardi Dam Transfer <sup>0</sup>	16.062	Increased requirements of existing customers	Increase pumping capacity and to meet NSW dam safety requirements
Water	Mardi Dam Pretreatment Facilities Associated With Mangrove To Mardi Transfer System <sup>0</sup>	10.000	Increased requirements of existing customers	Prevent water quality problems in Mardi Dam and Mangrove Creek Dam
Water	Mardi High Lift Pump Station And High Voltage Ring Main <sup>0</sup>	6.832	Increased requirements of existing customers	Increase pumping capacity and enable greater transfers between the Gosford and Wyong supply systems
Water	Water Private Works - Prepaid	0.835	Increased requirements of existing customers	Extension of water system to properties not provided for.
Water	Mardi Power Supply Upgrade <sup>0</sup>	2.383	Increased requirements of existing customers	Increase pumping capacity and enable greater transfers between the Gosford and Wyong supply systems

	<b>Project</b>	<b>Total 2009-2013</b>	<b>Driver</b>	<b>Justification</b>
Water	Porters Creek (Warnervale) Stormwater Harvesting Project (Deemed as JWS)	2.000	Increased requirements of existing customers	Provide environmental flows at Lower Wyong Weir
Water	Balickera Pre - Treatment Facilities	1.100	Increased requirements of existing customers	Increase yield and enable Councils to access water from Hunter Water
Water	JWS Mardi Highlift PS Assoc Works <sup>o</sup>	2.205	Increased requirements of existing customers	Increase pumping capacity and enable greater transfers between the Gosford and Wyong supply systems
Water	JWS Wtp Mech/Elect Renewal/Refurbish Unallocated	1.081	Compliance with a new standard	Improve infrastructure reliability
WW	Minor SPS Replacement-Mech/Elec	15.549	Agency defined standard	Improve infrastructure reliability - minimise risk of environmental harm
WW	Sewer Gravity Mains	5.596	Agency defined standard	Improve infrastructure reliability - minimise risk of environmental harm
WW	SPS And Reticulation Upgrade	2.621	Agency defined standard	Improve infrastructure reliability - minimise risk of environmental harm
WW	Major SPS Replacement-Mech/Elec	1.539	Agency defined standard	Improve infrastructure reliability - minimise risk of environmental harm
WW	Sewer Rising Mains	0.926	Agency defined standard	Improve infrastructure reliability - minimise risk of environmental harm
WW	KSTP-Biosolids Treatment Area	11.132	Compliance with an existing standard	Meet DECC EPL conditions
WW	KSTP-Secondary Treatment Area	5.737	Compliance with an existing standard	Meet DECC EPL conditions
WW	WWSTP-Biosolids Treatment Area	2.553	Compliance with an existing standard	Meet DECC EPL conditions
WW	KSTP-General Works	1.975	Compliance with an existing standard	Meet DECC EPL conditions
WW	SCW - Works Contract-Pam. Mark Losurdo Etc Sal's	1.800	Compliance with an existing standard	Need to ensure contracted works are undertaken in accordance with standards.
WW	KSTP-Preliminary Treatment Area	1.519	Compliance with an existing standard	Meet DECC EPL conditions

	<b>Project</b>	<b>Total 2009-2013</b>	<b>Driver</b>	<b>Justification</b>
WW	WWSTP-General Works	1.016	Compliance with an existing standard	Meet DECC EPL conditions
WW	Hawkesbury Villages PSP - Stage 1	6.406	Growth	Provide sewerage scheme for areas identified under the PSP
WW	Gosford CBD Sewer DSP	2.582	Growth	To replace aging assets and accommodate the expected increase in population
WW	Hawkesbury Villages PSP - Stage 2	2.110	Growth	Provide sewerage scheme for areas identified under the PSP
WW	Salaries Re Developers Dedicated Assets	1.274	Growth	Need to ensure developer provided works are in accordance with standards.
WW	Terrigal To Kincumber Augmentation <sup>0</sup>	37.838	Increased requirements of existing customers	Replacement of aging assets to prevent asset failure in environmentally sensitive area
WW	CBD Upgrade - Gosford	1.343	Increased requirements of existing customers	To replace aging assets and accommodate the expected increase in population
WW	Kincumber STP – Gosford Council Costs	3.166	Compliance with a new standard	Meet DECC EPL conditions
WW	Tertiary Treatment KSTP & WWSTP	0.726	Compliance with a new standard	Water conservation and environmental improvement
SW	Woy Woy Drainage	3.200	Compliance with an existing standard	To maintain and renew system and reduce the large capital works backlog
SW	Copacabana Urban Flood Mit.-Oceano To Segura CWP369	2.270	Compliance with an existing standard	To maintain and renew system and reduce the large capital works backlog
SW	East Gosford Finley Ave U/S Lushington Street	2.220	Compliance with an existing standard	To maintain and renew system and reduce the large capital works backlog
SW	Terrigal CBD Urban Flood Mit.Cwp 368	1.185	Compliance with an existing standard	To maintain and renew system and reduce the large capital works backlog
SW	Riviera Catchment Trunk Drain	1.491	Compliance with an existing standard	To maintain and renew system and reduce the large capital works backlog
SW	Narara Valley Drive Bridge Invest	1.228	Compliance with an existing standard	To maintain and renew system and reduce the large capital works backlog
SW	Gosford CBD Trunk Drain Kibble Park	1.160	Compliance with an existing standard	To maintain and renew system and reduce the large capital works backlog

	<b>Project</b>	<b>Total 2009-2013</b>	<b>Driver</b>	<b>Justification</b>
SW	Garnet Rd/Diamond Rd. Pearl Beach Cwp381	1.018	Compliance with an existing standard	To maintain and renew system and reduce the large capital works backlog

a From WaterPlan 2050.

b Budget reduced for Tribunal approved value.

**Source:** Halcrow by email 17 December 2008 and Gosford City Council by email 19 December 2008.

**Table B.2 Output measures for Gosford City Council**

<b>Output (or activity) measure</b>	<b>Report value</b>
<b>Water</b>	
Water quality complaints	Number
Water main breaks	Number
Average leakage	ML/d
Renewal of water mains	km
<b>Wastewater</b>	
Wastewater odour complaints	Number
Wastewater main chokes	Number
Wastewater overflows	Number
Kincumber and Woy Woy STP upgrade	Completion
Coastal Carrier wastewater system upgrade	Completion
Comply with DECC effluent standards	All STPs

Source: Gosford City Council submission to Independent Pricing and Regulation Tribunal, September 2008, p B5.

### B.3 Output measures for Wyong Shire Council

1. Completion of the core and advanced asset management framework system improvements
2. Delivery of projects listed in Table B.3 within  $\pm 20$  per cent of cost estimate
3. Additional output measures detailed in Table B.4 as proposed by Wyong Council.

**Table B.3 List of Wyong Shire Council projects over \$1m with drivers (\$ million 2008/09)**

	<b>Project</b>	<b>Total 2009-2013</b>	<b>Driver</b>	<b>Justification</b>
Water	Mardi to Mangrove Transfer System	53.013	Growth	Increase System Yield
Water	Mardi to Warnervale Trunk Main	23.650	Growth	Service Warnervale development areas
Water	Mardi Transfer System	16.273	Increased requirements of existing customers	Increase transfer capacity from Mardi Dam to Mardi WTP
Water	Porters Creek Drainage	10.654	Growth	Drainage projects at Porters Creek
Water	Mardi Dam Pretreatment Facilities Associated with Mangrove to Mardi Transfer System	10.437	Increased requirements of existing customers	Prevent water quality problems in Mardi Dam and Mangrove Creek Dam
Water	Mardi High Lift	9.275	Increased requirements of existing customers	Increase pumping capacity and enable greater transfers between the Gosford and Wyong supply systems
Water	Watermain Refurbishment	4.925	Agency defined standard	Replacement of deteriorated watermains
Water	Entrance/North Entrance Trunk Main	6.284	Growth	To improve supply to Mirvac Development
Water	JWA Minor Capital Works	6.058	Agency defined standard	
Water	Reclaimed Effluent Plant upgrade (DAFF Plant at Toukley)	4.430	Growth	Production / distribution of tertiary treated effluent for non potable uses
Water	Trunk Main Gorokan to Norah Head	3.724	Growth	To improve supply to the Toukley / Norah Head area
Water	Effluent Reuse (Toukley)	1.064	Growth	Production / distribution of tertiary treated effluent for non potable uses
Water	Kiar/Bushells Reservoir	2.693	Growth	
Water	Mardi Power Supply Upgrade	2.395	Increased requirements of existing customers	Increase pumping capacity and enable greater transfers between the Gosford and Wyong supply systems
Water	Electrical Refurbishment	2.346	Agency defined standard	Upgrade to meet current standards
Water	Mardi	2.206	Agency defined standard	

	<b>Project</b>	<b>Total 2009-2013</b>	<b>Driver</b>	<b>Justification</b>
Water	Porters Creek Stormwater Harvesting JWS (Warnervale)	2.205	Growth	Increase water supply
Water	Main Adjustments (Roads/Drainage)	1.788		Lowering/Raising/Replacement of mains required by roadworks
Water	Fittings and Tapping Band Replacement	1.726	Compliance with an existing standard	Replacement of unlined fittings and corroded tapping bands
Water	Water Quality 2010	1.378	Growth	Improve water quality
Water	Stormwater Harvesting	1.319	Growth	Increase water supply
Water	Mooney Mooney Dam Remedial	1.578	Growth	
Water	Porters Creek Stormwater Harvesting (100% Grant Funding)	1.553	Growth	Increase water supply
Water	Warnervale Employment Zone Water Mains	1.219	Growth	Service Warnervale development areas
Water	Balickera Pre Treatment Facilities	1.099	Growth	
Water	Repainting/Re-roofing	0.997	Agency Defined Standard	The Entrance
WW	Wyong South - No 4 Aeration Tank/No 5 Aeration Tank	14.896	Growth	Augmentation associated with increased (growth related) sewage loads
WW	Charmhaven (20000 EP)	14.896	Growth	Augmentation associated with increased (growth related) sewage loads
WW	Unidentified Works	12.884	Compliance with an Existing Standard	
WW	Section 94 Works (Undertaken by Council)	7.649	Growth	System extension / upgrade based on growth
WW	Sewer Rehabilitation	3.875	Agency defined standard	Replacement of root damage sewers
WW	General Mechanical/ Electrical/ Civil Refurbishment	3.439	Agency Defined Standard	Refurbishment of electrical /mechanical equipment/ existing structures eg, actuators
WW	Other	1.182	Growth	Unallocated projects
WW	Upgrade Toukley STP Inlet Works	2.402	Compliance with a new standard	Upgrade to meet current standards

	<b>Project</b>	<b>Total 2009-2013</b>	<b>Driver</b>	<b>Justification</b>
WW	Upgrade Mannering Park STP Inlet Works	2.601	Compliance with a new standard	Upgrade to meet current standards
WW	Other	1.388	Growth	Unallocated Projects
WW	Valves/Pumps/Switchboard	1.864	Agency defined standard	Replacement of deteriorated components
WW	Other	1.407	Agency Defined Standard	Refurbishment Contingencies and other minor plant and equipments
WW	WS36 E&M (inc 50% refurbishment)	1.313	Agency Defined Standard	Refurbishment of existing facilities to be retained for operations)
WW	Refurbish Mech	1.133	Agency Defined Standard	Refurbishment of existing facilities to be retained for operations)
WW	Refurbish Elect	1.133	Agency Defined Standard	Refurbishment of existing facilities to be retained for operations)
SW	Unallocated Projects	18.231		
SW	Warnervale Water Quality A1 AND B6	2.829	Growth	Environmental protection
SW	Lake Rd (East)	2.595		
SW	Various S94 Projects	2.140	Growth	System Extension/ Upgrade Based on Growth
SW	Category 1 & Category 2 Projects	1.386		

**Source:** Halcrow by email 17 December 2008 and Gosford City Council by email 19 December 2008.



**Table B.4 Output measures for Wyong Shire Council**

<b>Output (or activity) measure</b>	<b>Proposed Service Standard</b>
<b>Water</b>	
Water Quality	100% compliance with NHMRC monitoring guidelines
Water Quality	100% compliance with NHRMC health guidelines
Water quality complaints	Less than 5 per 1000 customers annually
Interruptions	Less than 5% of customers have service interrupted (planned or unplanned) that total more 5 hours in a year
Water Pressure	Water pressure at least 15m for at least 98% customers on an annual basis
Customer Satisfaction	No more than 15% of customers dissatisfied with the service delivered (2008/09 customer survey)
<b>Sewerage</b>	
Effluent Discharges	Effluent discharges to the ocean meet DECC licence conditions 100% of the time
Wastewater Odours	Less than 1% of properties experience odours on an annual basis
Wastewater overflows	Less than 1% of properties experience overflows on an annual basis
Customer Satisfaction	No more than 5% of customers dissatisfied with the service delivered (2008/09 customer survey)

**Source:**Wyong Shire Council submission to the IPART Price Path from 1 July 2009 to 30 June 2013 p 26 & Appendix D pp 1-3.

## C Weighted Average Cost of Capital (WACC)

There are several approaches for calculating the return on capital on the regulated asset base (RAB). IPART's preferred approach is to use the weighted average cost of capital (WACC) to determine an appropriate range for the rate of return. A point estimate of the WACC is selected from this range. The WACC for a business is the expected cost of the various classes of capital (debt and equity), weighted to take into account the relative share of debt and equity in the total capital structure. As with previous determinations, IPART has used a real pre-tax WACC.<sup>147</sup>

There are a number of input parameters to consider in determining an appropriate WACC range. Interest rates, inflation and debt margin are dependent on current market rates. The market risk premium, tax rate and dividend imputation factor do not vary with the nature of the business. However, the equity beta, capital structure and debt margin vary with the nature of the business.

In making its draft decision, IPART has considered the views of the Councils, current regulatory and financial practice, its previous decisions and its own analysis. In particular, IPART has conducted analysis on the debt margin, the risk free rates and the implied inflation. No other stakeholders have commented on the rate of return.

IPART's decisions for its approach to the WACC and each of the WACC parameters for the draft decision are discussed below.

### C.1 IPART's past WACC decision

Table C.1 below shows the final parameters adopted by IPART in the 2008, 2005 and the 2003 Metropolitan Water decision, the 2006 Bulk Water decision, and more recently, the 2008 CityRail decision.

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<sup>147</sup> The real pre-tax formula is presented in *Bulk Water Prices for State Water Corporation and Water Administration Ministerial Corporation from 1 October 2006 to 30 June 2010 – Final Report*, September 2006, Appendix D.

**Table C.1 Rate of return parameters – past decisions**

Parameter	2008 CityRail	2008 Sydney Water	2007 Electricity retail	2006 Bulk water	2005 Metro water	2003 Metro water
Nominal risk free rate	5.2%	6.1%	5.9%	5.8%	5.2%	5.1%
Real risk free rate	2.5%	2.4%	2.7%	2.4%	2.6%	2.9%
Inflation	2.7%	3.6%	3.1%	3.3%	2.5%	2.2%
Market risk premium	5.5 - 6.5%	5.5 - 6.5%	5.5 - 6.5%	5.5 - 6.5%	5.5 - 6.5%	5.0 - 6.0%
Debt margin	2.9 - 6.0%	3.1 - 3.7%	1.0 - 1.3%	1.1 - 1.3%	1.2 - 1.3%	0.7 - 1.0%
Debt to total assets	60%	60%	30 to 40%	60%	60%	60%
Dividend imputation factor (gamma)	0.5 - 0.3	0.5 - 0.3	0.5 - 0.3	0.5 - 0.3	0.5 - 0.3	0.5 - 0.3
Tax rate	30%	30%	30%	30%	30%	30%
Equity beta	0.8 - 1.0	0.8 - 1.0	0.8 - 1.2	0.8 - 1.0	0.8 - 1.0	0.65 - 0.90
WACC range (real pre-tax)	6.5 - 9.7%	6.8 - 8.4%	7.2 - 9.9%	5.5 - 6.9%	5.7 - 7.1%	5.2 - 6.7%
<b>WACC (real pre-tax point estimate)</b>	<b>7.2%</b>	<b>7.5%</b>	<b>8.6%</b>	<b>6.5%</b>	<b>6.3%</b>	<b>5.6%</b>

As it can be seen from Table C.1, there has been a wide variation in the WACC range that IPART has determined over the years. This is not as surprising given that some parameters are based on market observations and consequently reflect prevailing market conditions at the time of the decision. IPART considers that there is merit in maintaining a consistent approach to the calculation of the cost of capital across regulatory decisions. Table C.1 highlights a very high degree of consistency for parameters that are not directly observable from market data. Such inter-temporal consistency reduces regulatory risk and its associated costs. Hence, there is a presumption that unless an alternative approach to the calculation of a WACC parameter is demonstrated to be clearly superior, the existing approach should be maintained.

## C.2 Issues Paper

In July 2008, IPART released an Issues Paper setting out its preliminary position on its approach to calculating an appropriate rate of return to apply to the Councils' RAB seeking comments from stakeholders.

IPART proposed to maintain its existing approach of using the real pre-tax WACC and selecting a point estimate for the WACC from a range. IPART indicated that the capital asset pricing model (CAPM) has been used to derive the cost of equity, and the cost of debt has been calculated as a margin over the risk free rate.

### C.3 Stakeholder submissions

Gosford Council has submitted a revenue requirement calculated using a real pre-tax WACC of 6.3 per cent. However, Gosford Council considers that a WACC based on IPART's determination for Sydney Water in 2008 is appropriate; ie, a real pre-tax WACC of 7.5 per cent, subject to changes in market conditions. The values of the parameters selected by IPART in its determination for Sydney Water are shown in Table C.1.

While Gosford Council believes that a return of 7.5 per cent is appropriate, it has considered the revenue requirement and increase in prices that would result from this rate of return. Gosford Council has therefore proposed a reduction in the rate of return to equity holders. A WACC of 7.5 per cent implies a rate of return to equity holders of approximately 10.9 per cent. Gosford Council has reduced this return to equity holders to 9.0 per cent, resulting in a real pre-tax WACC of 6.3 per cent'.<sup>148</sup> Gosford Council has submitted a revised revenue requirement based on the rate of return of 6.3 per cent. Gosford Council considers that it is appropriate to moderate the return to equity holders to mitigate the resulting increase in prices to some extent.

Wyang Council has not explicitly proposed a rate of return to apply to the RAB in its submission. Rather, the revenue requirement has been set to recover the cost of operating the water, sewerage and stormwater drainage system plus a return equivalent to tax equivalents.<sup>149</sup> The implicit rate of return from residuals has been calculated by IPART to be around 2 per cent per annum (real) on average over the upcoming determination period.

Wyang Council has recommended that it does not recover a rate of return commensurate with the cost of capital for a benchmark water utility for this price determination. This recommendation is made with consideration of the socioeconomic base in the Wyong Shire.<sup>150</sup> Wyong Council considers that in light of the significant increase in water costs faced by the community it is inappropriate to pay a dividend in excess of the tax equivalents in the short to medium term.

<sup>148</sup> Gosford Council submission p 50.

<sup>149</sup> Wyong Council has based this proposal on the DWE Best Practice Management Guidelines that require that the dividend (rate of return) should be at least the equivalent of tax equivalents.

<sup>150</sup> Public Hearing, Metropolitan Water Price Review for Gosford and Wyong Councils, 14 November 2008, Gosford. Transcript available on IPART's website.

## C.4 IPART's analysis and decision

### Approach to calculating the WACC

#### Draft decision

- 46 IPART's decision for the draft determination is for real pre-tax WACC of 7.0 per cent to be applied to the RAB.

IPART's finding is that for the purposes of calculating the allowance for a return on assets, a real pre-tax WACC of 7.0 per cent will be applied. This finding reflects IPART's view that an appropriate rate of return is in the range of 5.9 per cent to 8.6 per cent. A range has been constructed in recognition of the uncertainty of calculating the WACC, particularly the market risk premium, debt margin, equity beta and the dividend imputation factor. The point estimate has been selected after balancing the requirements of Section 15 of the IPART Act.

IPART has noted that the Councils have both recommended applying a lower rate of return than that determined for Sydney Water in the 2008 determination. At the Public Hearing<sup>151</sup>, IPART indicated that it invariably makes an allowance for the full cost of capital to apply to the RAB in its regulatory decisions and would likely apply this approach in this decision.

IPART will maintain its approach of applying the weighted average cost of capital of a benchmark Australian water utility to the RAB. In undertaking its price determinations IPART gives consideration to policies adopted at a national level and agreed to by relevant states and territories. The first intergovernmental water reform framework was endorsed by CoAG in 1994. More recently, the Commonwealth Government released the National Water Initiative that refreshes the 1994 CoAG agreement and provides guidance for, amongst other things, water pricing reform throughout Australia. A key theme in both these documents is to set water prices to achieve full cost recovery. IPART considers that the inclusion of a WACC reflective of the cost of capital to a benchmark Australian water utility is a requirement for this objective. The opportunity cost of the assets used in supplying water and sanitation services includes a rate of return. To exclude these costs would result in an underpricing of the scarce resource and promote overconsumption of water. IPART agrees with the Councils and other stakeholders that the impact of price increases to low income consumers should be mitigated. However, impacts to customers are more appropriately managed using transparent mechanisms such as pensioner rebates and payment assistance schemes as discussed by NCOSS<sup>152</sup>. IPART also recognises that the Councils may wish to pass on to residents and ratepayers the benefits of their ownership of these assets. But this can be better done through mechanisms other than the under-pricing of water.

<sup>151</sup> Public Hearing, Metropolitan Water Price Review for Gosford and Wyong Councils, 14 November 2008, Gosford. Transcript available on IPART's website.

<sup>152</sup> NCOSS submission to IPART in response to Issues Paper, October 2008, pp 3-5.

The parameters IPART used to calculate this WACC range are shown in Table C.2 and were based on market conditions averaged over the 20 days to 14 January 2009 where relevant. IPART recognises that there has been significant volatility in financial markets recently and there is likely to be continued volatility in the near future. This has affected market-based parameters including the risk free rates and the resulting implied inflation forecast, and the debt margin. For this draft decision, IPART has decided to:

- ▼ Continue to calculate the implied inflation rate using the Fisher equation and 20-day averages of Commonwealth Government bond yields. To account for scarcity in the market, IPART has marked up the interest rate on the indexed bonds by 20 basis points.
- ▼ Set the range for the debt margin using IPART's traditional approach of using fair value yield curve data obtained from Bloomberg for BBB rated Australian corporate bonds with a maturity of 10 years, as well as actual bond yields for BBB and BBB+ rated securities. Yields are averaged over the twenty days to 14 January 2009. An allowance of 12.5 basis points is made for the transactional costs involved in raising debt.

These issues are discussed further in the relevant sections of this appendix. IPART is currently conducting further analysis on these parameters and will finalise its views prior to making its final decision. IPART intends to release a series of working papers from February 2009 outlining its preliminary analysis of alternatives to estimating the debt margin and implied inflation. IPART is separately consulting on this issue in parallel with the consultation on this draft decision. Any revisions to the estimation of the WACC will have implications for all sectors that IPART regulates. Hence outcomes of the consultation on these parameters will guide IPART's findings for the final determination.

As previously noted, a key consideration of IPART is the objective of consistency between regulatory decisions over time. IPART will consider this objective when evaluating possible alternative approaches to estimating these market-based parameters.

The remainder of this chapter details IPART's considerations in making this decision.

**Table C.2 Rate of return range and parameters – IPART’s decision for the draft determination**

<b>WACC Parameters</b>	<b>Market value</b>
Nominal risk free rate <sup>a</sup>	4.2%
Real risk free rate <sup>a</sup>	2.8% <sup>b</sup>
Inflation <sup>a</sup>	1.3%
Market risk premium	5.5% - 6.5%
Debt margin <sup>a</sup>	1.2% – 3.6%
Debt to total assets	60%
Dividend imputation factor (gamma)	0.5 to 0.3
Tax rate	30%
Equity beta	0.8 - 1.0
Cost of equity (nominal post-tax)	8.6% – 10.7%
Cost of debt (nominal pre-tax)	5.4% – 7.7%
WACC range (real pre-tax)	5.9% – 8.6%
WACC (real pre-tax) point estimate	7.0%

<sup>a</sup> Based on market data for the 20 days prior to 14 January 2009.

<sup>b</sup> Includes a scarcity premium of 20 basis points. Calculated by adding 20 basis points to the real risk free rate of 2.6%.

### Nominal and real risk free rates and inflation

#### Draft decision

- 47 IPART’s decision for the draft determination is to apply the following parameters for the purpose of calculating the rate of return to apply for Gosford City Council and Wyong Shire Council:
- a nominal risk free rate of 4.2 per cent based on the 20 day average as at 14 January 2009
  - a real risk free rate of 2.8 per cent based on 20 day the average as at 14 January 2009
  - an implied inflation rate of 1.3 per cent.

The risk free rates are used as reference points in determining both the return on equity and the cost of debt within the WACC. In both the CAPM and cost of debt calculation, the risk free rate is the base to which is added a premium or margin reflecting the riskiness of the specific business for which the rate of return is being derived.

The use of a real pre-tax WACC necessitates the use of a real risk free rate. Historically, IPART has estimated the nominal and real risk free rates from 20-day averages of yields on 10-year Commonwealth Government bonds. The Fisher equation is used to calculate implied inflation.

IPART updated its approach in the 2008 Sydney Water determination. In recognition of the strong evidence of a bias in the indexed government bond market due to severe shortages of supply, IPART made an adjustment of 20 basis points to the inflation forecast. This was done after considering evidence from NERA<sup>153</sup>, the Allen Consulting Group (ACG)<sup>154</sup>, the Reserve Bank of Australia (RBA) and the Australian Treasury<sup>155</sup>.

To test whether there is a bias in the real risk free rate used by Australian regulators, NERA calculated the margin that the real and nominal corporate bonds issued by Electranet and Envestra were yielding over the equivalent real and nominal government bonds for the period from November 2003 to March 2007. From this, NERA concluded that the margin for real corporate bonds became larger than the margin for nominal corporate bonds from the last quarter of 2004 and increased until it reached a value of approximately 20 basis points by March 2007.

NERA considers that given this evidence of an emerging bias, both nominal and real government bonds are becoming poor proxies for nominal and real risk free rates under the CAPM, and that upward adjustments should be made to their yields to correct for the biases.

ACG believes that there is evidence that the yields on real government bonds result in a downward-biased estimate of the real risk free rate. The reasons offered for this view by ACG were as follows:

- ▼ The forecasts of inflation implied by returns on government bonds are generally above the target inflation range of the RBA of two per cent to three per cent at 28 June 2007, the average annual level of inflation implied by the 2010, 2015 and 2020 inflation indexed bonds is 2.8 per cent, 3.3 per cent and 3.5 per cent respectively. The level of inflation implied by the 10 year nominal and real risk free rates calculated using the Fisher equation was 3.3 per cent.
- ▼ ACG's consultation with a number of financial market participants on the conditions in the market for real government bonds indicated that most market participants consider that there is an element of downward bias in yields of these bonds.

However, ACG did not support the proposition that there is a bias in nominal Commonwealth Government bonds (an absolute bias). The existence of the absolute bias was also rejected by the RBA and the Australian Treasury.

<sup>153</sup> NERA, *Bias in inflation-indexed CGS yields as a proxy for the CAPM risk-free rate*, March 2007; NERA *Absolute bias in (nominal) Commonwealth Government Securities*, June 2007.

<sup>154</sup> ACG, *Relative bias of inflation indexed CGS yields as a proxy for the CAPM risk-free rate*, July 2007.

<sup>155</sup> Australian Treasury, *The Treasury bond yield as a proxy for the CAPM risk-free rate*, Letter to the ACCC, August 2007.



The RBA and the Australian Treasury's views are that:

- ▼ demand for inflation indexed bonds has increased as supply has fallen
- ▼ turnover for these bonds is low and the market is not liquid
- ▼ as inflation-linked government bonds mature without replacement, their usefulness for estimating long term real risk free rates will diminish.

IPART is currently investigating alternative approaches to calculating the implied inflation forecast. IPART considers that its current approach is not without problems, although IPART considers the alternative whereby the real risk free rate is derived using non-market forecasts of inflation is likely to be more problematic.

An alternative is a methodology whereby the implied inflation is estimated using data from the zero-coupon inflation-linked swap market. IPART released a working paper in February 2009 to seek comments on its proposed approach. Alternative approaches to estimating the debt margin will also be investigated. The final determination for the Councils will be guided by the findings of this consultation.

For the purposes of this draft decision, IPART has maintained the methodology used in the 2008 Sydney Water determination whereby a scarcity premium of 20 basis points is added to the inflation indexed Commonwealth Government bond to account for any bias in the yield. However, the final decision will be guided by further analysis and the findings of the upcoming consultation on these market-based parameters.

As at 14 January 2009, the implied inflation rate between the nominal Commonwealth Government bond and the inflation indexed Commonwealth Government bond was 1.3 per cent. This is calculated in Table C.3.

**Table C.3 Risk free rates and implied inflation**

Parameter	Value
Nominal risk free rate	4.2%
Real risk free rate	2.8%
Scarcity adjustment	0.2%
Expected inflation	1.3%

**Source:** RBA data and IPART analysis.

## Debt margin

### Draft decision

- 48 IPART's draft decision for the draft determination is to adopt a debt margin range of 1.2 per cent to 3.6 per cent based on market observations as at 14 January 2008.

The debt margin represents the cost of debt a company has to pay above the nominal risk free rate. The debt margin is related to current market interest rates on corporate bonds, the maturity of debt, the assumed capital structure and the credit rating.

IPART in the past has based its debt margin estimates on 20-day averages of fair value yield curve data obtained from fair value yield curves for BBB and BBB+ rated Australian corporate bonds with a maturity of 10 years, as well as actual bond yields for BBB and BBB+ rated securities.

IPART has also previously made an allowance for transaction costs associated with the raising of debt, expressed as an increment to the debt margin. In previous decisions, IPART has considered an allowance of 12.5 basis points to be an adequate adjustment for debt raising costs.

As noted in Chapters 7 and 9 and in the Final Report for CityRail<sup>156</sup>, IPART has conducted preliminary analysis on the measurement of the debt margin. This was in response to concerns that market conditions in the Australian corporate bond market may not reflect the actual cost of debt a utility would face in a competitive market.

The analysis conducted in the CityRail Final determination highlighted the extent of the volatility in the yield on corporate debt resulting from the current financial crisis. Yields prior to the middle of 2007 were fairly stable. Since then, a re-pricing of risk became evident, particularly with regards to:

- ▼ industry-specific issues (property and financial services) and
- ▼ business-specific issues (mainly debt and its refinancing).

IPART also considered historical yields on corporate bonds by credit rating of all corporate debt issues in Australia excluding financial, property and foreign government issued securities.

IPART's analysis indicated that there was a narrowing in the debt margins between AAA and BBB rated debt. The average yield on AAA bonds exceeded the average yield on BBB bonds in August 2008. IPART concluded that the credit rating was not likely to be a reliable indicator of credit risk in the current market.

Preliminary investigations indicated that an alternative portfolio based on Australian utility-issued debt may be a more reliable proxy for the debt margin than IPART's traditional portfolio of securities.

For this determination, IPART has compared the 20-day average debt margins generated using its traditional methodology<sup>157</sup> and the alternative portfolio as described in the CityRail final determination. The results are presented in Table C.4.

<sup>156</sup> IPART, *Review of CityRail fares, 2009-2012 – Final Report*, December 2008.

<sup>157</sup> IPART has relied on fair value yields and actual bond yields from Bloomberg as CBASpectrum has discontinued its service to some non-bank customers. However, the treatment of this data is the same as in previous determinations.

IPART is concerned that in the current environment its traditional approach to estimating the debt margin is particularly volatile due to the small number of proxies included. In particular, IPART's analysis of credit spreads of only utility-issued bonds indicates that while there has been an increase in yields since mid-2007, this increase is considerably less than that evident using IPART's traditional methodology as shown in Table C.4.

**Table C.4 Debt margins at 14 January 2008**

	Lower bound	Upper bound
Traditional methodology	1.2%	3.6%
Utility issued bonds only	0.7%	2.6%

**Note:** Includes 12.5bp debt raising costs.

**Source:** Bloomberg and IPART analysis.

Table C.4 indicates that the differential between IPART's traditional methodology and the only utility-issued bond portfolio is driven by the upper bound of the debt margin range. IPART is concerned that the upper bound of the traditional debt margin estimate may not be relevant for the Councils. It notes that the debt margin estimate generated using the only utility-issued bond portfolio is more consistent with historical averages.

As noted, IPART is currently considering alternative approaches to estimating the debt margin such as constructing alternative portfolios, relying on alternative data sources or extending the sampling period. IPART's preliminary view is that extending the sampling period would be inconsistent with its approach for other market parameters. IPART intends to release a working paper in March 2009 to seek comments on alternative approaches. A working paper is expected to be released in February 2009 to consult on the issue of determining the implied inflation.

IPART's initial assessment indicates that the current upward trend in debt margins may not be as pronounced in those industries which IPART regulates. However, for the purpose of this decision, IPART has continued to use its traditional methodology to determine the range for the debt margin. IPART has also had regard to the alternative approach in setting the point estimate within that range.

IPART has included an allowance of 12.5 basis points in the debt margin in recognition that debt raising and debt refinancing costs are costs above the debt margin that businesses incur in competitive markets.

For the purposes of the draft decision, IPART has therefore adopted a debt margin in the range of 1.2 per cent to 3.6 per cent.

## Equity beta

### Draft decision

- 49 IPART's decision for the draft determination is to adopt an equity beta of 0.8 to 1.0 for the purpose of calculating the rate of return to apply for Gosford City Council and Wyong Shire Council.

The equity beta value is a business-specific parameter that measures the extent to which the return of a security varies in line with the return of the market. It represents the systematic or market-wide risk of an asset that cannot be avoided by holding the assets as part of a diversified portfolio. It is important to note that the equity beta does not take into account business-specific or unsystematic risks.

Wyong Council has not proposed a value for the equity beta in its submission.

Gosford Council has noted that the 2008 Sydney Water price determination valued the equity beta within the range of 0.8 to 1.0 and considers that this is an appropriate valuation of the equity beta for this determination.

As Table C.1 shows, IPART's preference is to value equity beta in a range of 0.8 to 1.0. A range has consistently been constructed, due to the inherent uncertainty in estimating the equity beta. This range was adopted in the 2006 determination for the Councils and in the 2008 determination for Sydney Water.

It is likely that the Councils face a similar level of systematic risk to that of Sydney Water. In the interest of achieving consistency between regulatory decisions, IPART considers that a range of 0.8 to 1.0 is an appropriate valuation of the equity beta for this draft decision.

IPART notes that new evidence on the value of equity beta has caused other Australian regulators to revise their established valuations for equity beta:

- ▼ In its final decision of the Gas Access Arrangement Review 2008-2012, the ESC valued equity beta at 0.7. This decision included a transitional mechanism which effectively allowed an equity beta at 0.8.
- ▼ The AER's draft position in its review of WACC parameters to apply to electricity transmission and distribution network service providers revises the equity beta from 1.0 to 0.8.

As the AER is required to complete its review by 31 March 2009, IPART intends to observe the AER's final position when making a final decision for an appropriate rate of return to apply to the Councils. IPART will continue to monitor and evaluate decisions in other jurisdictions but at this stage it is not inclined to modify the equity beta range.

### Capital structure, tax rate and dividend Imputation factor (gamma)

#### Draft decision

50 IPART's draft decision for the draft determination is to adopt the following parameters for the purpose of calculating an appropriate rate of return to apply for Gosford City Council and Wyong Shire Council:

- debt to total assets of 60 per cent
- tax rate of 30 per cent (statutory tax rate)
- dividend imputation factor of 0.5 to 0.3.

When determining the level of gearing used to calculate the WACC, IPART adopts a benchmark capital structure, rather than the actual financial structure, to ensure that customers will not bear the cost associated with an inefficient financing structure. Another factor that needs to be considered is the dividend imputation factor (gamma). Under the Australian dividend imputation system, investors receive a tax credit (franking credit) for the company tax they have paid. This ensures that the investor is not taxed twice on their investment returns (ie, once at the company level and once on the personal tax level).

The value of the imputation tax credits is represented in the CAPM by 'gamma'. The rationale behind this, including the value of gamma in the CAPM, is that investors are receiving a tax credit from their investment, they would accept an investment with a lower return than if there were no tax credits attached to this investment. The gamma is an important input in the CAPM, as a high value (valued at or approaching one) would reduce the cost of capital considerably.

Wyong Council has not proposed values for this parameter in its submission.

Gosford Council has noted that the 2008 Sydney Water price determination was for a gamma of 50 per cent to 30 per cent, gearing of 60 per cent and tax rate of 30 per cent and considers these to be appropriate valuations for this determination.

As Table C.1 shows, IPART's preference for debt to total assets and tax rate parameters has been the benchmark capital structure value and use the prevailing company statutory tax rate. In establishing what gamma value to assign, IPART over the years has reviewed a number of independent expert reports and academic studies that have consistently shown that there is no conclusive market evidence on the exact value that investors attach to imputation tax credits. IPART has therefore maintained the range of 0.5 to 0.3 rather than a point estimate to account for the uncertainty in estimating this value.

There is no new information in submissions received in this review that warrant a change from its previous decisions on the capital structure, tax rate and dividend imputation factor.

### Market risk premium

#### Draft decision

- 51 IPART's draft decision for the draft determination is to adopt an MRP range of 5.5 to 6.5 per cent for the purpose of calculating an appropriate rate of return to apply for Gosford City Council and Wyong Shire Council.

The market risk premium (MRP) represents the additional return over the risk free rate of return that an investor requires for the risk of investing in a diversified equity portfolio.

Wyong Council has not proposed values for these parameters in its submission.

Gosford Council has noted that the 2008 Sydney Water price determination was for an MRP in the range of 5.5 to 6.5 per cent and considers this to be an appropriate valuation for this determination.

As Table C.1 shows, in most recent decisions, IPART has maintained an MRP range of 5.5 to 6.5 per cent. This range was adopted in the 2006 Determination for the Councils and in the 2008 Determination for Sydney Water. IPART has consistently used a range rather than a point estimate due to the inherent uncertainty in estimating an MRP for an unlisted business. IPART believes that there is no new information arising out of the submissions to warrant a departure of the MRP range adopted in IPART's recent decisions.

## D Water purchases from Hunter Water Corporation

Hunter Water Corporation (Hunter Water) and Gosford City and Wyong Shire Councils (the Councils) have an agreement to supply each other with potable drinking water under a water supply contract.

Broadly speaking, this agreement requires either party to provide potable water to the other should one party make such a request. The agreement in which water is supplied is subject to minimum storage levels for each party and a need for a greater than 5 per cent difference between the two parties' storage levels.

Hunter Water has provided approximately 6,000 ML of water to the Councils since the 2005/06 commencement of the water supply link that connects the two water systems. In return, over the same period the Councils have supplied around 800 ML to Hunter Water. The current agreed pricing structure for 2008/09 is a volumetric price calculated at a discount of 28.3 per cent of the IPART determined tier one price for Hunter Water. IPART has endorsed a sales forecast of 500 ML per annum of sales from Hunter Water to the Councils for the coming price path period.

The water supply agreement between Hunter Water and the Councils remains in place until 2026, although the price for water sales set by this agreement expires on 1 July 2009. Both Hunter Water and the Councils have stated that they expect that IPART will set the price of transfers from 1 July 2009.<sup>158</sup>

The principles of this agreement predate the decision to build Tillegra Dam. The agreement provides for revision of these principles should either party augment their water system. A working party of representatives from Hunter Water and the Councils has been set up to consider an appropriate model for sharing the costs of Tillegra Dam but no commercial agreement has been reached to date.<sup>159</sup> Should the two parties reach an agreement IPART will review the amended price at the next price determination.

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<sup>158</sup> IPART public hearing for Hunter Water price review, 12 December 2009, transcript available at: [http://www.ipart.nsw.gov.au/investigation\\_content.asp?industry=3&sector=7&inquiry=174&doctype=2&doccategory=2&docgroup=1](http://www.ipart.nsw.gov.au/investigation_content.asp?industry=3&sector=7&inquiry=174&doctype=2&doccategory=2&docgroup=1). IPART public hearing for Gosford City and Wyong Shire Councils price reviews, 14 November 2009, transcript available at: [http://www.ipart.nsw.gov.au/investigation\\_content.asp?industry=3&sector=7&inquiry=175&doctype=2&doccategory=2&docgroup=1](http://www.ipart.nsw.gov.au/investigation_content.asp?industry=3&sector=7&inquiry=175&doctype=2&doccategory=2&docgroup=1).

<sup>159</sup> Hunter Water revised submission to IPART Issues Paper, 9 January 2009, p 78.

## D.1 IPART's analysis

In the 2005 price review, IPART found that Hunter Water could supply water to the Councils at a commercially negotiated price that was lower than the tier one price. IPART also signalled that it would review this commercial charging arrangement for the Councils at the next price review.<sup>160</sup>

Hunter Water and the Councils have stated publicly at their respective price review hearings that they expect IPART to set the price for transfers between the two water supply schemes from 1 July 2009. IPART has considered its legal position to set this price in response to the statements from both parties. IPART's opinion is that it can regulate the price of transfers under its Act and, since both parties have requested it do so, an approach and price has been determined. IPART's approach and determined price is set out in the sections that follow.

### D.1.1 Pricing approaches considered for pricing water sales between Hunter Water and the Councils

IPART considered four approaches for setting the price of water sales between Hunter Water and the Councils. IPART determined that an average cost (AC) approach achieves the fairest outcome for pricing water transfers because:

- ▼ it is able to reflect the relatively low cost to supply the Councils, and
- ▼ when price is set at AC, total revenue equates to total cost (when price is multiplied by consumption).

The decision to use AC to set the price of transfers is also influenced by IPART's decision to not apply a fixed service charge for water sales between Hunter Water and the Councils. A fixed service charge is normally used as a balancing item to recover the costs that are not recouped through marginal cost pricing. However, since IPART has selected an AC pricing approach which equates total revenue to total costs, Hunter Water's costs to supply water to the Councils will be recouped by setting price equal to AC.

IPART's decision to not apply a fixed service charge is based on the view that both parties rely on similar infrastructure, so one fixed charge would be commensurate with the other. If fixed charges were applied, the amounts would approximately net out through roughly equal payments charged by both parties. Furthermore, both parties contributed capital to develop the trunk main pipeline that connects the two water systems.

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<sup>160</sup> IPART, *Sydney Water Corporation, Hunter Water Corporation and Sydney Catchment Authority review of prices for water supply, wastewater and stormwater services – Final Report*, 2005, pp 120-121.



The three alternative approaches that IPART considered for setting the price of water sales between Hunter Water and the Councils were:

- ▼ a scarcity pricing approach
- ▼ pricing at Hunter Water's tier one water price, and
- ▼ a discount on the price of Hunter Water's tier one water price (as proposed by Hunter Water).

Scarcity pricing aims to equate supply and demand through immediate price increases in times of water scarcity. IPART decided not to adopt a scarcity pricing approach for two reasons. Firstly, given Hunter Water's current storage levels, it is considered unlikely that it will experience water scarcity in the short to medium term.<sup>161</sup> Furthermore, due to Hunter Water's sufficient storage levels, the majority of future transfers are likely to be supplied by Hunter Water to the Councils (so the Councils' scarcity issues do not come into consideration).

Secondly, since IPART also sets the maximum price for the Councils, price increases would be limited by the degree to which the Councils could pass on price increases to signal scarcity to its customers. This, in effect, limits the use of scarcity pricing<sup>162</sup>.

IPART also discarded the use of Hunter Water's tier one water price to price water sales between Hunter Water and the Councils. IPART's decision to not use the tier one water price is based on its view that the cost to supply the Councils is relatively inexpensive and that price should take this into account, particularly because of the significant capital investment that the Councils has made towards the connecting trunk main pipeline that links the water systems.

Hunter Water's proposal to price transfers at the tier one price less a discount was also not adopted by IPART. Hunter Water proposed that:

...the current agreed price structure be maintained as commercial agreement was reached on this approach. . . [However,] Hunter Water has not agreed to provide the councils with access to Tillegra Dam under the current supply agreement unless the councils agree to purchase a share of the yield from Tillegra Dam. In this light, the tier one usage price to which the agreement price is linked needs to be deflated for Tillegra-related depreciation and rate of return. To give effect to this deflation, Hunter Water proposes that the discount on the tier one price be increased from the current 28.3 per cent to 37 per cent from 1 July 2009.<sup>163</sup>

<sup>161</sup> SKM found that there was a 1 in 21.3 chance that Hunter Water would need to impose restrictions in any year. When Tillegra Dam is added the chance of needing to impose restrictions falls to 1 in 1250 chance of imposing restrictions in any year. The trigger point for imposing restrictions is assumed to be reached when storage levels fall below 60 per cent.

<sup>162</sup> This issue will be explored further in IPART's draft report on Sydney Catchment Authority prices for Water to be released in March 2009.

<sup>163</sup> Hunter Water revised submission to IPART Issues Paper, 9 January 2009, pp 93-4.

IPART decided not to follow this approach since IPART sets the tier one price with reference to Hunter Water's LRMC to supply water from Tillegra Dam. While this is the case, a discount to 'back out' Tillegra Dam related expenditure would not be effective when the tier one price is based solely on the LRMC of Tillegra Dam supply.<sup>164</sup>

### D.1.2 Why use the average cost of Hunter Water?

IPART has used the AC of Hunter Water's supply of water to the Councils as a reference to price water sales between the two parties. IPART considers that Hunter Water's AC represents a fair value to use to price water transfers in both directions (ie, north to south and south to north) because:

- ▼ the majority of past transfers since 2005/06 have come from Hunter Water's supplies
- ▼ the majority of future transfers are expected to come from Hunter Water's supplies<sup>165</sup>
- ▼ Hunter Water's current price/cost is presently used as the basis for pricing water transfers.

### D.1.3 IPART's approach to calculating average cost

Hunter Water's AC to supply water to the Councils is calculated by dividing its total annual cost by an estimate of its total annual consumption.

Without reductions to operating and capital expenditure Hunter Water's AC is \$2.39/kL. However, IPART has excluded certain identifiable expenditures from the AC calculation to account for the relatively inexpensive cost to supply the Councils.<sup>166</sup> IPART considers such reductions reasonable in light of the fact that the Councils are a large customer that imposes little cost on the broader Hunter Water network. This treatment produces similar outcomes to the 'discount on tier one' approach that is currently used by Hunter Water and the Councils to set the 2008/09 price for transfers.

IPART has taken an average of the ACs over the four years of the price path in the interest of simplicity. The average AC calculated is \$1.12/kL, however IPART applied a 10 per cent premium to determine the charge for water sales between Hunter Water and the Councils. A 10 per cent premium recognises that the Councils

<sup>164</sup> IPART notes that Hunter Water propose to set volumetric prices in line with X-factor adjustments that deliver the notional annual revenue requirement throughout the determination period (Hunter Water submission, 5 January 2009, p 88.). Under this approach, Hunter Water's proposal to price water transfers to the Councils does have merit.

<sup>165</sup> Hunter Water is unlikely to need large volumes of water (if any at all) given its current storage levels and its plans to augment supply (see footnote 161).

<sup>166</sup> Water transfers to the Councils involve large quantities transferred via a trunk main pipeline (jointly funded by Hunter Water and the Councils) directly into the Councils' water system.

are irregular and intermittent users of water from the Hunter Water network. This treatment is consistent with the treatment of intermittent users of goods and services in other industries. The value of the average AC with the inclusion of the 10 per cent premium is \$1.24/kL. This value represents the charge used by IPART to price water sales between Hunter Water and the Councils.

More details on this calculation will be provided in the draft report for Hunter Water Corporation and the final report for the Councils.

IPART will review this price at the next determination should the Hunter Water and the Councils reach an agreement on sharing Tillegra Dam supplies. IPART notes that Hunter Water can charge less than the regulated price should the Treasurer agree.

## **D.2 IPART's decision on water transfers between Hunter Water Corporation and the Councils**

### Draft decisions

- 52 IPART's decision is to use Hunter Water's average cost to price for water transfers to the Councils.
- 53 IPART's decision is to use \$1.24/kL as the price for water sales between Hunter Water and Gosford City and Wyong Shire Councils.

## E Glossary

2005 Determination	IPART, <i>Prices of Water Supply, Wastewater and Stormwater Services - Gosford City Council Wyong Shire Council - 1 July 2005 to 30 June 2006</i> May 2005 (Determination Nos 1 and 2, 2005)
2005 Determination (Gosford)	The 2005 Determination as it applies to Gosford City Council (Determination No 1 2005)
2005 Determination (Wyong)	The 2005 Determination as it applies to Wyong Shire Council (Determination No 2 2005)
2006 Determination	IPART, <i>Gosford City Council, Wyong Shire Council: Prices of Water Supply, Wastewater and Stormwater Services From 1 July 2006 to 30 June 2009</i> , May 2006 (Determination Nos 2 and 3, 2006)
2006 Determination (Gosford)	The 2006 Determination as it applies to Gosford City Council (Determination No 2 2006)
2006 Determination (Wyong)	The 2006 Determination as it applies to Wyong Shire Council (Determination No 3 2006)
2006 determination period	The period from 1 July 2006 to 30 June 2009
2009 determination period	The period from 1 July 2009 to 30 June 2013
ABS	Australian Bureau of Statistics
ACG	Allen Consulting Group
AER	Australian Energy Regulator
AIR	Annual Information Return
Atkins/Cardno	A consortium of WS Atkins International Ltd and Cardno MBK
Authority	The Gosford and Wyong Councils' Water Authority

CAPM	Capital Asset Pricing Model
CBD	Central business district
CCTV	Closed-circuit television
Central Coast	The geographical area encompassing Wyong Shire Council and Gosford City Council areas
CGS	Commonwealth Government Securities
COAG	Council of Australian Governments
the Corporation	Central Coast Water Corporation
Councils	The water, sewerage and stormwater drainage sections of Wyong Shire Council and Gosford City Council (the regulated business)
CPI	Consumer Price Index
DAFF	Dissolved Air Flotation and Filtration
Dam	Tillegra Dam
DECC	Department of Environment and Climate Change
determination	The price limits set by IPART for a given determination period
DSP	Development Service Plan
DWE	Department of Water and Energy
DWE Best Practice Guidelines	NSW Department of Water and Energy, <i>Best-Practice Management of water Supply and Sewerage Guidelines</i> , August 2007
DWE Trade Waste Guidelines	Department of Energy, Utilities and Sustainability, <i>Liquid Trade Waste Management Guidelines</i> , March 2005
EPL	Environment Protection Licence
ESC	Essential Services Commission
financial year	The year commencing on 1 July and ending on 30 June
GL	Gigalitre (1000 ML = 1,000,000,000 litres)

Gosford Council	The water, sewerage and stormwater drainage sections of Gosford City Council
GWCWA	The Gosford and Wyong Councils' Water Authority
Halcrow	Halcrow Pacific Pty Limited
Halcrow/MMA	A consortium of Halcrow Pacific Pty Ltd and McLennan Magasanik Associates
Hunter Water	Hunter Water Corporation
IPART	Independent Pricing and Regulatory Tribunal of New South Wales
IPART Act	<i>Independent Pricing and Regulatory Tribunal Act 1992</i>
JWS	Joint water supply projects undertaken by the Gosford and Wyong Councils' Water Authority
kL	Kilolitre (1000 litres)
KSTP	Kincumber Sewage Treatment Plant
LCD	Litres per capita per day
LGA	Local Government Area
Local Government Act	<i>Local Government Act 1993</i>
LRMC	Long Run Marginal Cost
LWU	Local Water Utility
ML	Megalitre (1000 kL = 1,000,000 litres)
MMA	McLennan Magasanik Associates
MRP	Market risk premium
NCOSS	Council of Social Services of NSW
NERA	NERA Economic Consulting
NPV	Net Present Value
NSA	National Seniors Association
NWC	National Water Commission

NWI	National Water Initiative
OH&S	Occupational health and safety
PED	Price elasticity of demand
PIAC	Public Interest Advocacy Centre
PS	Pumping Station
PSP	Priority Sewerage Program
RAB	Regulatory Asset Base
RBA	Reserve Bank of Australia
SIR	Special Information Return
SKM	Sinclair Knight Merz
SPS	Sewage pumping station
STP	Sewage Treatment Plant
STW	Sewage treatment works
Sydney Water	Sydney Water Corporation
TEC	Total Environment Centre
WACC	Weighted Average Cost of Capital
WMRP	Water Mains Renewal Program
WQ	WaterQuality 2010 program
WWSTP	Wastewater sewage treatment plant
Wyong Council	The water, sewerage and stormwater drainage sections of Wyong Shire Council

