

GOSFORD CITY COUNCIL

PRICES OF WATER SUPPLY, SEWERAGE AND DRAINAGE SERVICES

Medium term price path from 1 July 1996



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

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

Matter No.: SRD/96/01

Report: No 3.2, 1996

Agency: Gosford City Council

Services: Water supply, sewerage and drainage services.

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

Order dated 27 August 1992 - page 6431, Gazette No. 105

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1. INTRODUCTION

As required by Section 11(1) of the Independent Pricing and Regulatory Tribunal Act 1992, the Independent Pricing and Regulatory Tribunal has investigated proposals by Gosford City Council (a standing reference agency in Schedule 1 of the Act) for maximum prices to be charged from 1 July 1996 for declared water supply, sewerage and drainage monopoly services.

The Tribunal's determinations of the maximum prices for these services are attached with this report.

2. THE PRICE DETERMINATION PROCESS

The Tribunal called for pricing proposals from Gosford Council for consideration of a medium term price path for the supply of water supply, sewerage and drainage services. Submissions were invited from interested parties and the public on these proposals and other issues relating to the pricing of these services.

A public hearing was held on 21 March 1996 at the Metro Inn, North Gosford.

Details of the Council's proposals are shown below and a summary of other submissions received is shown in an attachment.

Copies of all submissions and a transcript of the hearing is available for inspection at the Tribunal's offices, Level 1, 44 Market Street, Sydney.

The Tribunal members who considered this determination were:

Professor Thomas G Parry, Chairman

Mr James Cox, Full-time Member

Ms Joan McClintock, Member

Mr Robert Bruce, Temporary Member

3. SUMMARY OF THE DETERMINATION

The main features of this determination are:

- ◆ A 6 per cent nominal reduction in periodic water charges in 1996/97 and a 5 per cent real reduction in each of the subsequent two years.
- ◆ A 12.5 per cent nominal reduction in periodic sewerage charges in 1996/97 and a 1.5 per cent real reduction in each of the subsequent two years.
- ◆ The adoption of the net present value methodology for the calculation of developer charges. This will generally imply an increase of approximately 25 per cent over current charges.
- ◆ Continued phased introduction of a cost reflective two part tariff for non residential sewerage charges.
- ◆ The continuation of the process set in place in the June 1994 determination for moving residential assessments to a flat uniform sewerage charge.

4. SUBMISSIONS

4.1 Pricing proposals made by Gosford City Council

The main proposals made by Gosford City Council were:

- ♦ In 1996/97, a decrease in the sewerage base charge for both residential and non-residential customers of \$20. Charges for water, sewerage usage, trade waste and drainage would remain constant in nominal terms (pending the outcome of the Tribunal's marginal cost study) with proposed increases for some miscellaneous items.
- ♦ A CPI price cap was proposed for the years following 1996/97.
- ♦ Council has in place the objective of phasing out the ocean outfall of sewage by 2005.
- ♦ Council supported retention of the 200 kL water allowance.

Council argued that its proposal was consistent with the following financial objectives:

- ♦ providing water and sewerage services of the highest quality at minimum cost
- ♦ minimising the reliance on new debt to fund new or replacement capital works
- ♦ minimising the net present value of the cost of servicing this debt
- ♦ not funding depreciation/future renewals from revenue whilst significant levels of debt exist.

Council was of the understanding that the Tribunal would make an independent determination on developer charges following completion of its assessment of the financial implications of the methodology adopted. Any adjustment of price anomalies would be a separate Council submission to the Tribunal.

4.2 Other submissions

The Tribunal received a number of submissions from other parties. These are summarised in an attachment. Major concerns expressed in these submissions related to the environmental implications of the pricing of water and sewerage services.

5. ISSUES CONSIDERED BY THE TRIBUNAL

Under Section 15 of the Independent Pricing and Regulatory Tribunal Act 1992 the Tribunal is required to have regard to a number of matters and indicate what regard it has had to them. These matters are outlined below.

5.1 Costs and efficiency

- * *the cost of providing the services concerned [S15(1)(a)]*
- * *the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers [S15(1)(e)]*
- * *the impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body [S15(1)(h)]*
- * *the need to promote competition in the supply of the services concerned [S15(1)(i)]*

5.1.1 Operating Costs

The operating costs incurred by Gosford City Council in the provision of water, sewerage and drainage services are anticipated to increase by \$0.8 million in 1995/96 and are projected to increase in real terms by 4.4 per cent in total over the five years to 1999/2000. Given the expected growth in the number of assessments served, this equates to a real reduction in operating costs of 3.3 per cent per assessment over the five years.

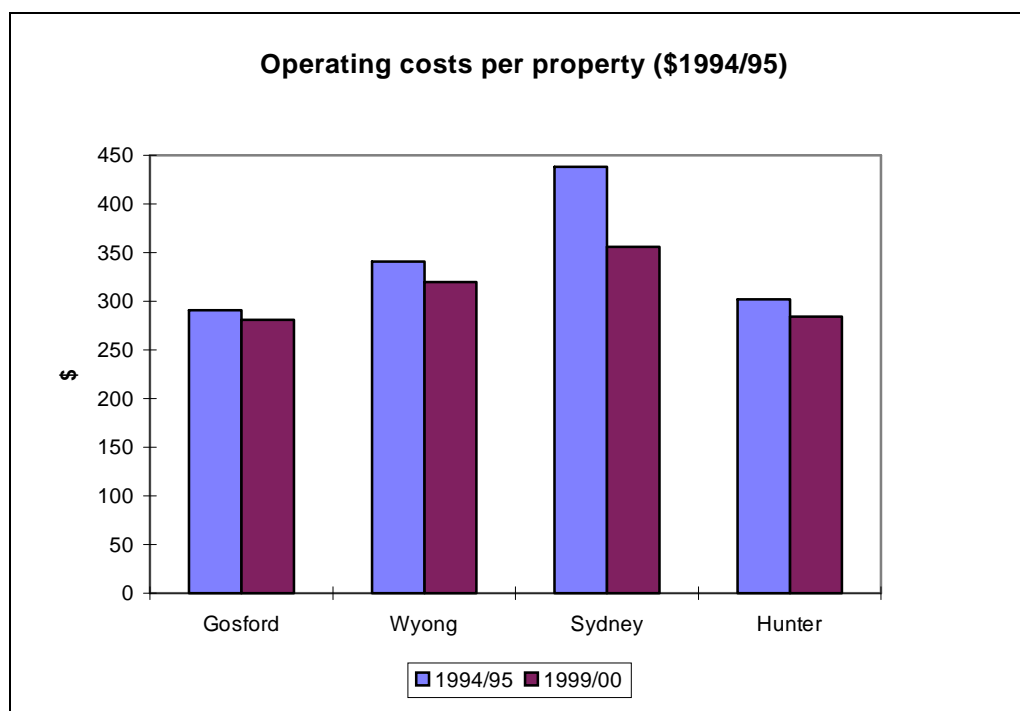
The following table highlights the trend in operating costs and depreciation.

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
Cost per property						
\$1994/95						
Operating	291	288	287	285	282	281
(\$ of the day)						
Operating	291	300	308	314	321	329
Depreciation¹	<u>254</u>	<u>179</u>	<u>185</u>	<u>191</u>	<u>204</u>	<u>206</u>
Total	545	479	493	505	525	535

In 1994 KPMG, a consultant engaged by both Gosford City and Wyong Councils, released "A comparison of Gosford and Wyong Council's performance in the provision of water supply and sewerage services with that of other authorities". This report found both Councils had managed to contain per capita costs associated with operations, maintenance and administration to levels below those of other authorities.

The Tribunal has prepared the following graph comparing operating costs per property for water and sewerage services between Wyong Council, Gosford Council, Sydney Water Corporation and Hunter Water Corporation. While Gosford City Council's 1994/95 costs compare very favourably with the other water operators it has assumed lower cost reductions in future years than the other water suppliers. In any comparison between the water suppliers it should be noted that Hunter Water Corporation, Gosford City Council and Wyong Council treat sewage to a higher standard than Sydney Water Corporation.

¹ The reduction in depreciation between 1994/95 and 1995/96 relates to the proposed adoption by Council of longer asset lives



Notes: Figures exclude depreciation

Figures for Sydney include BOOT costs and costs associated with increased standards

Council is currently involved in reviewing work place practices and processes with the objective of providing services at least cost. The water and sewerage operations have initiated a training program for all staff. In addition, Council is participating in a benchmarking project being undertaken by the Department of Land and Water Conservation. The extent of potential gains for Gosford Council has not yet been identified.

The Tribunal believes that, given the opportunity for technological improvements, outsourcing and work place reforms, Council's current cost projections are conservative.

5.1.2 Capital investment

Gosford City Council has relatively new fixed assets. But Gosford City's proposal for new capital expenditure involves spending over the next 10 years which is equal to 25 per cent² of its current written down value of fixed assets. This compares with 22 per cent for Sydney Water Corporation and 11 per cent for Hunter Water Corporation. This figure appears relatively large.

5.1.3 Contracting out

Gosford City Council is undergoing a review of its organisational structure as required by the Local Government Act. This review is providing the opportunity for Council to structure the organisation to provide community services within a more competitive environment. Significant areas of the water and sewerage operations are either being undertaken by the private sector or have been subject to a competitive tendering process in which the private sector has been allowed to participate. Council expects testing of the method of the provision of services to continue.

² Excludes developer funded assets

5.1.4 Competition

The submission from the environment groups discusses possible options for removing pricing barriers to competition. The submission recommends a single set of terms for the presentation of pricing categories for water, sewerage and drainage services for all water agencies in NSW. The uniform format would be based on the terms contained in the Sydney Water Corporation submission. From the Sydney Water Corporation submission:

“The key to the Tribunal’s review of Sydney Water’s prices in the light of competition policy is to achieve the regularisation of prices and pricing and charging methodologies, and thereby bring Sydney Water’s pricing policies into line with the basis that the private sector could be expected to utilise were it to compete directly...”

The submission from the environment groups contends that

“there is no incentive to customers to disconnect from the system (in the interests of self-sufficiency and reducing the stress on existing systems) or to use other service providers.”

As a start to resolving this situation the environment groups recommend the following:

- ◆ a customer should be able to disconnect from water, sewerage or drainage infrastructure and pay the costs of the necessary works to their own plumber who certifies to the agency that the works have been carried out
- ◆ fixed charges for water, sewerage and drainage should cease upon disconnection
- ◆ no fixed charges should be payable by a customer who is not connected.

The submission from Sydney Water Corporation argues that entry and exit charges are regulated by the Tribunal and should be based on the recovery of the costs involved in making the physical alteration of services.

In its 1995 submissions the NSW Department of Health expressed concern about the potential health risks from customers disconnecting from the local water authorities water and sewerage networks. Council has pointed to possible environmental damage from such action and the extra administrative burden of ensuring individual landowners satisfy environmental standards.

The environment groups propose a new category of pricing for sewer mining for which the Tribunal should set a zero or a ‘at cost’ charge. The groups recommended that the Tribunal should create a forum to identify where markets for the reuse of wastewater may be encouraged. The Tribunal proposes to adopt this latter recommendation.

The submission from Sydney Water Corporation discusses the scope for competition in the distribution network of the water agencies. The scope for removing impediments to competition will need to be reviewed as part of the National Competition Policy Package which was endorsed by the Council of Australian Governments in April 1995. Although an understanding of the application of National Competition Principles to providing third party access to the water industry is still evolving, when competitors bid for access to water agencies’ systems they will have to pay for that access.

5.2 Consumer protection

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

5.2.1 Pricing

Gosford City Council has made significant progress in eliminating price anomalies between different customer classes. These pricing reforms have taken the following form:

- ♦ elimination of property taxes
- ♦ introduction of a two part tariff for non-residential customers
- ♦ proposed introduction of new developer charges methodology.

Any changes in the basis of charging (eg. removal of property taxes) will have differing impacts on the various customers. In making its determination the Tribunal has attempted to make charges more cost-reflective to better signal the value of resources consumed. This has been done with due recognition of the financial impacts on individual customers. Therefore extensive use has been made of transition paths to ease the year to year impacts.

Council has stated that the removal of the price anomalies which were identified in a report by the Tribunal on December 1995³ will be the subject of a separate submission to the Tribunal. Gosford City Council contend that this will not have a great impact on any medium term price path. The adjustment of price anomalies will redistribute revenue rather than increase or reduce the total. According to Council, the anomalies identified by the Tribunal do not represent a significant portion of the agency's overall income stream.

5.2.2 Service standards

The trends in key service standard levels are shown below. The results for 1994/95 are not directly comparable with earlier years due to improved measurement and recording systems.

Water	1992	1993 actual	1994/95
Water quality complaints			
per 1000 customers	0.4	0.9	3.2
Mains burst per 100 km	25	19	50
Other water complaints			
per 1000 customers	111	113	96
Sewerage	1992	1993 actual	1994/95
No. of overflows per 100km	63	33.8	n/a
No. of blockages per 100km	87	44	101
Backlog sewerage: no. of new lots serviced during year	3,223	6,542	n/a

³ Government Pricing Tribunal, *Report on the Working Group on Price Anomalies Review*, December 1995

Both Sydney Water Corporation and Hunter Water Corporation have introduced contracts with their customers regarding key service standards. In some cases failure to comply with these standards requires the water supplier to reimburse customers part of their service charge. This provides an additional incentive for a monopoly business to meet customer needs. Gosford Council should investigate the adoption of a similar process.

The Household Expenditure Survey conducted by the Australian Bureau of Statistics indicates that water and sewerage charges comprise 0.7 per cent of an average household's weekly expenditure in NSW. The proposed reduction in charges will therefore have a small effect on the overall cost of living in the Gosford area.

5.2.3 Social impacts

The major impacts flowing from the Tribunal's determination will be felt by those involved in new developments. The methodology for developer charges⁴ which was developed by the Tribunal in conjunction with water suppliers and developers will provide⁵:

- ♦ a source of funding for the infrastructure required for new urban developments
- ♦ signals regarding the costs of urban development which encourage less costly forms and areas of development. Charges for infrastructure for new developments should signal the true relative costs of providing such infrastructure. This will ensure that the charges do not distort the form and sequence of new development.

The new developer charges will increase the cost of developing land in the Gosford area and may increase the price paid by those who buy serviced land.

5.3 Financial viability

- * *the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of NSW [S15(1)(c)]*
- * *the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets [S15(1)(g)]*

5.3.1 Rate of return

The activities of Local Government, including water and sewerage operations, are not subject to the State Government's distribution and tax equivalents regime⁶. Nor do the water and sewerage operations explicitly make such a payment to Council's 'general fund'. The water and sewerage activities are viewed by Council as providing a community good essential for public health and safety, and are therefore not subject to an explicit target rate of return.

In the absence of such disciplines Councils tend to ascribe no cost to internally generated funds and rely on these, to the greatest extent possible, to the exclusion of debt financing.

⁴ Government Pricing Tribunal, *Water Industry Forum, Report on Developer Charges for Water, Sewerage and Drainage Services*, November 1995
Government Pricing Tribunal, *Sydney Water Corporation, Prices of Developer Charges for Water, Sewerage and Drainage Services*, December 1995

⁵ Government Pricing Tribunal, *Sydney Water Corporation, Prices of Developer Charges for Water, Sewerage and Drainage Services*, December 1995, p2

⁶ NSW Government, *A Financial Distribution Policy for NSW Government Trading Enterprises*, August 1992

Furthermore, given that Council is competing with organisations with rate of return targets (private sector and Government Trading Enterprises) in markets for resources, then Council's lack of similar targets could provide incorrect resource allocation signals.

A number of accounting and cash based measures of financial performance are shown below. Comparisons are made with large capital intensive private companies and Government Trading Enterprises.

Year	Gosford Council 1995/96	Wyong Council 1995/96	Sydney Water 1995/96	Hunter Water 1995/96	Sydney Electricity 1994/95	BHP 1994/95	AGL 1994/95
EBIT/Total Assets	3.9	3.2	2.2	2.4	4.7	10.1	10.5
EBIT/Gross Income	42.4	35.4	24.3	29.3	9.1	15.8	19.7
EBITD/Gross Income	63.9	58.0	29.5	48.1	18.2	24.8	26.6
(Interest+ Dividends+Tax)/ Gross Income	18.3	13.5	24.3	26.9	7.6	11.4	13.7
Depreciation/ Gross Income	21.6	22.5	15.2	18.8	9.1	8.9	6.9
Capital expenditure /Gross Income	17.8	27.0	20.0	28.0	10.5	20.4	11.9

Notes: Hunter Water Corporation's Gross Income excludes proceeds from the environmental levy

Figures for water suppliers' Gross Income and Capital Expenditure include capital contributions

The apparent discrepancy in the cash and accounting returns between the public and private entities is a consequence of differences in the asset valuation techniques applied in the two sectors. If Council's EBIT/Total Assets figure is measured on an historic cost basis then the rate of return of 3.9 per cent would increase to approximately 7 per cent, while the ratio of depreciation to gross income would decline from 21.6 per cent to approximately 12 per cent.

If current institutional arrangements were put aside and Council's water and sewerage activities were viewed as commercial operations then the key considerations in establishing the returns which are payable to the owner would be:

- ♦ establishment of the regulatory asset base
- ♦ assessment of the appropriate rate of return
- ♦ performance in relation to the cash based measures which are included in the table above.

The asset base used for regulatory purposes may not necessarily coincide with that reported in the annual accounts. For example, assets may be excluded if they fail the "used and useful" test which is applied in North American jurisdictions⁷.

Similarly, it would be inappropriate to include customer funded assets and assets paid for by the State Government⁸ in the regulatory base. To earn a rate of return on assets provided free of charge to the water supplier would be double dipping. That is, customers should not be charged a return on assets which have already been paid for (including a profit component). It is recognised that the water supplier has to maintain and ultimately replace such assets and that these costs should be included in the cost of service provision.

Customer funded assets have not been separately identified in the Council's existing asset base. However, Council does include developer contributions as part of its income in the year received. Given that developer contributions can vary significantly from one year to the next there can be substantial fluctuations in the reported level of income and rate of return.

In addition, it would be inappropriate to expect a return on investments which were made to satisfy community service obligations (for which no matching payment was received from Government) or investments which were made to satisfy non-commercial objectives (eg. to meet political objectives).

The figures shown in the above table have not been adjusted for these factors. The unadjusted results indicate that Council's rate of return compares favourably with other utilities, and that its performance in relation to the cash based measures compares favourably with the other utilities and capital intensive private sector organisations.

The NSW Government's approach to defining the rate of return target is⁹:

"... the fundamental investment decision rule is that investments should only be made where, over the lifetime of the investment, the expected rate of return on the assets employed at least equals the firm's weighted average cost of capital (WACC)."

The Tribunal has not calculated the WACC for Council's water and sewerage operations but considers it appropriate to adopt, as a proxy, the figure of 7 per cent real applied by the NSW and Commonwealth Governments for general government projects.¹⁰

In applying this figure the Tribunal would wish to distinguish between past and new investments. Past investments were made for a variety of economic and political reasons and it would be inappropriate to apply a commercial return to the written down replacement value of such investments. However, it is appropriate for the Tribunal, as part of its consideration of the matters listed in section 15 of its Act, to consider the effects of applying a return equal to 7 per cent on new investments, including environmental expenditure.

⁷ Reasons for failing the "used and useful" test include gold plating and surplus capacity not anticipated to be utilised within a reasonable planning horizon

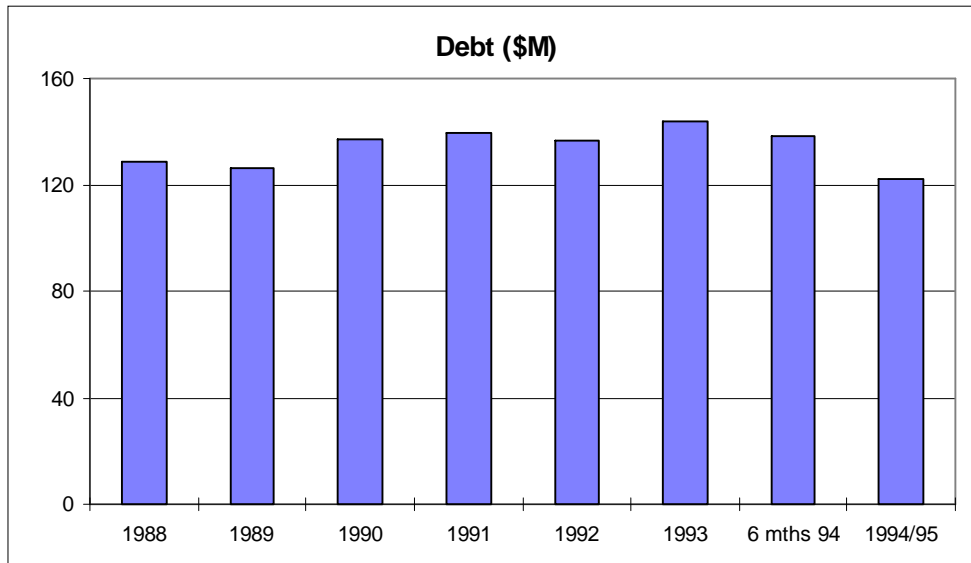
⁸ The State has invested over \$300 million in Gosford and Wyong through the Public Works Department

⁹ NSW Government, *A Financial Distribution Policy for NSW Government Trading Enterprises*, August 1992, p12

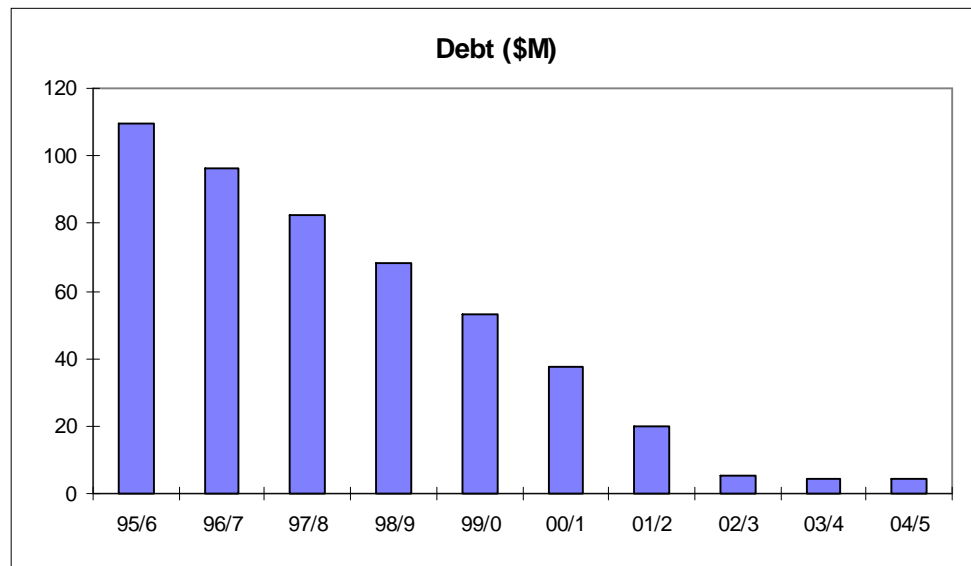
¹⁰ Government Pricing Tribunal, *Water Industry Forum, Report on Developer Charges for Water, Sewerage and Drainage Services*, November 1995, Attachment 1

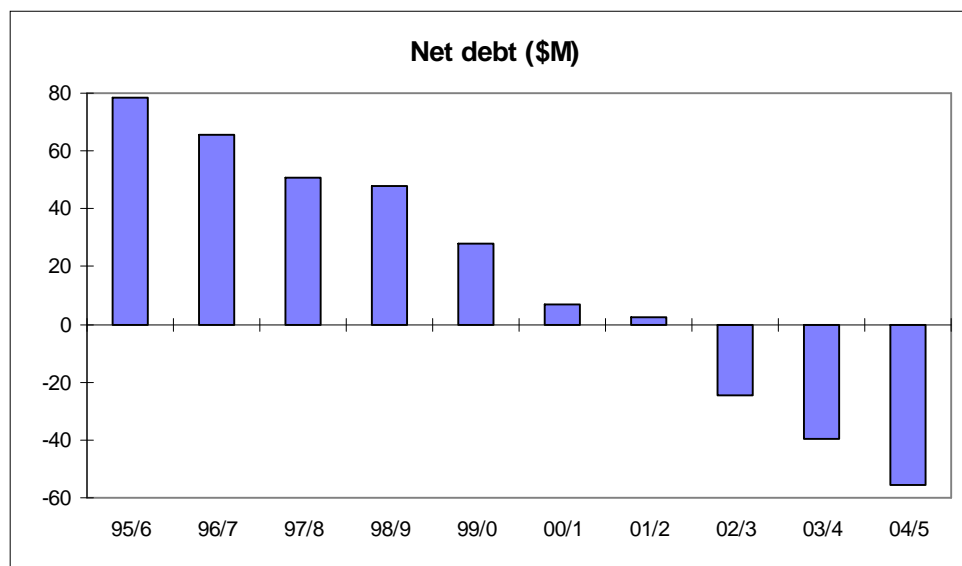
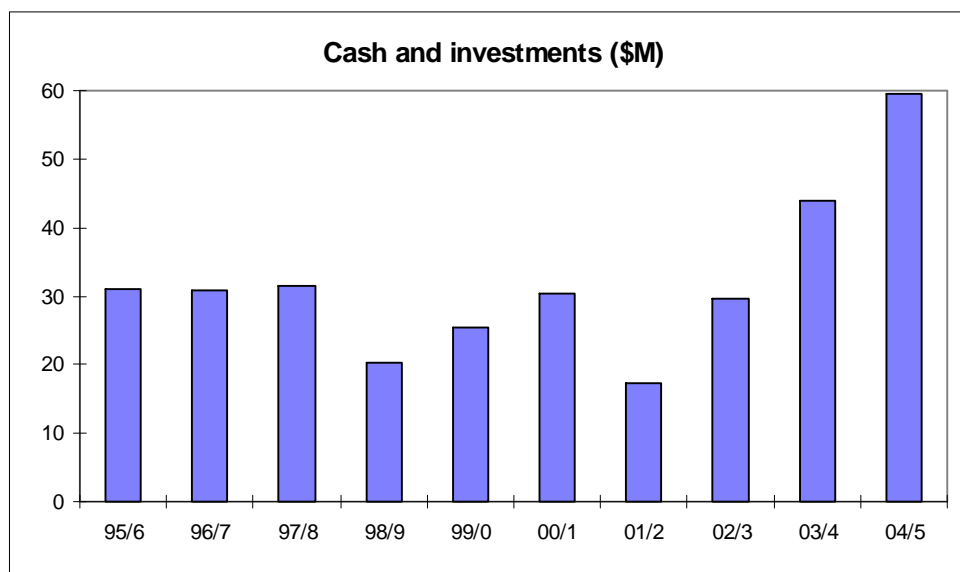
5.3.2 Capital structure

Council's level of debt has fallen in recent years. This is illustrated in the following graph.



Council's pricing proposals lead to a further reduction in debt. The following graphs illustrate the financial impacts of Council's proposed charges (excluding the effect of the new developer charges methodology) over the next ten years.





Gosford City Council argues that the re-financing of some water and sewerage loans in 1993 took advantage of lower interest rates. The terms of the loans were reduced without increasing the interest costs. Council believes debt reduction permits an overall reduction in the costs of delivering water and sewerage services. The Tribunal's previous determinations are impacting on Council's future strategy of funding some capital works from restricted assets¹¹. Council would oppose any further delay in repaying debt and argues that such a move would significantly increase long term costs to the community. Moreover, delay in repaying debt appears to be inconsistent with the Government's objective of reducing public sector debt.

In the past Councils have relied upon debt finance only where major capital works were undertaken and the alternative to debt was a politically unacceptable increase in recurrent charges.

¹¹ Restricted assets are cash and investments that are held by Council to be used for a specific purpose eg developer contributions

In the discussion of an appropriate debt level, four relevant considerations are opportunity cost, competitive neutrality, intergenerational equity and financial discipline.

If Council, as a monopolist, raises prices above efficient costs (including a rate of return) then it is abusing its monopoly power and denying ratepayers the opportunity to choose how their funds are invested. This may lead to an inefficient allocation of resources.

Similarly, if Council obtains these funds without the disciplines of tax and dividends that apply to other users of capital in the community then investment decisions between Council and other investors may be distorted.

Thirdly, the absence of debt would result in current ratepayers paying the full cost of infrastructure which will also be of benefit to future ratepayers.

Lastly, an appropriate commercial level of debt will provide an incentive for Council to continue its cost reform process. The costs of debt servicing are explicit and unavoidable, while the cost of using internally generated funds are implicit and may go unnoticed even where funds are not being used to best advantage.

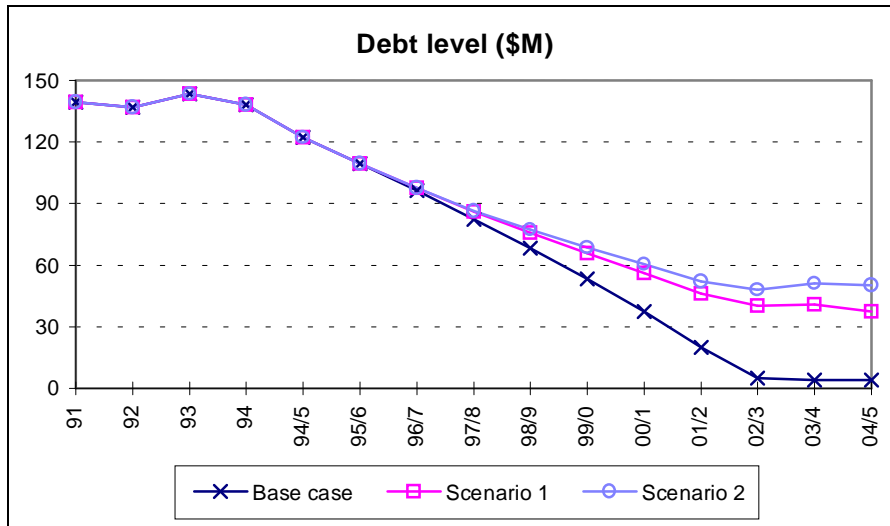
The Tribunal therefore considers that the advantages and disadvantages of a rapid reduction in debt need to be carefully considered.

5.3.3 Assessment of alternative pricing scenarios on the level of debt

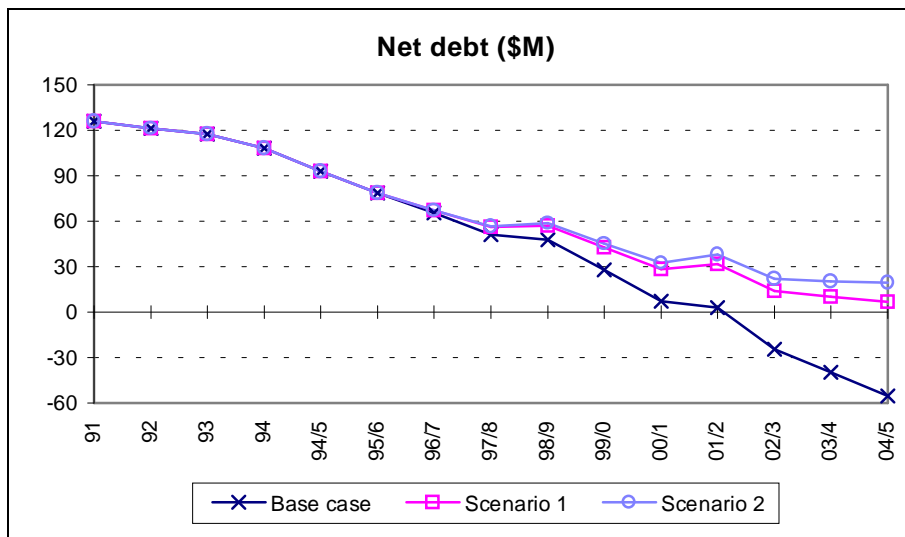
The Tribunal has considered the implications of charges lower than the ones proposed by Council. The reduced charges may slow down the reduction in debt which would otherwise have occurred, which has implications for current and future ratepayers.

The Tribunal compared the Council's proposed prices with alternative pricing scenarios.

- ◆ Base case: The price path proposed by Council plus a 25 per cent increase in developer charges.
- ◆ Scenario 1: 10 per cent nominal decrease in core revenue per property in 1996/97; CPI - 1.5 per cent cap thereafter; 25 per cent increase in developer charges.
- ◆ Scenario 2: 6 per cent nominal reduction in periodic water charges in 1996/97 and a 5 per cent real reduction in the subsequent two years; 12.5 per cent nominal reduction in periodic sewerage charges in 1996/97 and a 1.5 per cent real reduction in the subsequent two years; CPI - 1.5 per cent cap on periodic charges thereafter; 25 per cent increase in developer charges.



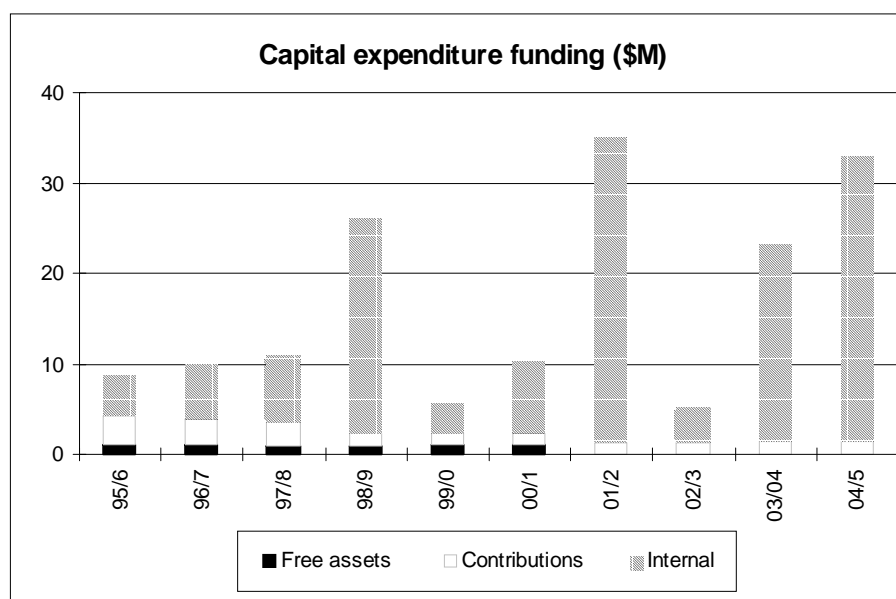
It will be seen that the base case leads to a rapid reduction in the level of debt and net debt (ie debt minus investments). The alternative scenarios are also consistent with a reduction of net debt but at a slower rate than proposed by Council.



The financial projections within Council’s submission do not include an adjustment for the new developer charges methodology. The 25 per cent increase in developer charges used for financial modelling is indicative only and will vary, on implementation of the new methodology, between developments.

5.3.4 Funding of capital expenditure

The following graph illustrates how Council expects to fund capital expenditure. It appears that capital expenditure will be funded largely from internal sources. Council believes the provision of new assets for growth should largely be funded from developer contributions while new standards or levels of service would be funded from debt or retained earnings. However, there could be a time lag between when Council incurs the expenditure and when it is recovered through developer charges.



5.4 Environmental issues

- * *the need to maintain ecologically sustainable development by appropriate pricing policies that take account of all the feasible options available to protect the environment [S15(1)(f)]*
- * *considerations of demand management and least cost planning [S15(1)(j)]*

5.4.1 Ecologically sustainable development

Ecologically sustainable development, as described in Part 3 of the Protection of the Environment Administration Act 1991, requires *the effective integration of economic and environmental considerations* and the implementation of *improved valuation and pricing of environmental resources*. In line with this objective the Tribunal has introduced a number of initiatives. Also, the Tribunal has requested guidance from the NSW Environmental Protection Authority (EPA) as to how it may practically incorporate this objective within its pricing determinations¹².

In its submission to the Tribunal on the pricing proposals of Hunter Water Corporation the EPA stated¹³:

“The EPA supports the inclusion of such a (specific environmental externality) component in the prices for water and related services supplied by water authorities.”

If Council's water and sewerage operations satisfy current and known future environmental standards, then the Tribunal believes that this condition has been satisfied by ensuring that Council's prices cover the cost of services (including where appropriate a rate of return). However, the EPA has also argued for inclusion of a component in the usage price for water, above what is already in place, to take account of environmental damage resulting from the use of water. Because of the prepaid water allowance, the usage charge is a relatively small part of paying for water in Gosford. This issue is discussed further below.

¹² IPART, Transcript of Public Hearing, Sydney Water Corporation, Hearing Volume Number 1, April 19, 1996

¹³ Environmental Protection Authority, *Determination of Maximum Prices for the Hunter Water Corporation from July 1996*, 25 March 1996

The EPA contends that the principle of ecologically sustainable development should become part of the business processes in place within an organisation. For example, environmental issues need to be considered before any capital works decision is made. In general,

“It is a matter of having a certain culture within the organisation and it is a matter of having certain processes that do try to reinforce that culture and to make sure that environmental considerations become a part of every single decision or the decision making process that is employed within the organisation.”¹⁴

The Healthy Rivers Commission was established in January 1996¹⁵ to conduct public inquiries into the condition of the State’s key river catchments and make recommendations on how they should be better managed in the future. The Commission is required to make recommendations to the Government on objectives for water quality, river flows and other goals to achieve ecologically sustainable development in a realistic time frame. The Commission’s recommendations will affect future standards and related pricing determinations.

5.4.2 Demand management

During 1995 Council participated in the demand management forum¹⁶ organised by the Tribunal to ‘develop a framework for evaluating the merits of specific demand management measures’. The framework developed by the forum requires various inputs to enable the cost effectiveness of options to be assessed. To this end Council is identifying usage characteristics and potential demand reductions and adoption rates.

Meters are read annually for customers of Gosford City Council. Combined with the 200 kilolitre water allowance, annual meter reading may have the effect of stifling demand management signals. While increasing the frequency of meter reading would increase Council’s costs in terms of operations and administration, meter reading could be contracted out in conjunction with other utilities.

Gosford City Council continues to expand its demand management and reuse practices with:

- ◆ *Public education.* Water Week activities and Water Wise Kits to all schools in the area.
- ◆ *Water audits.* Council has encouraged over 100 of its larger consumers to undertake a water audit of their activities.
- ◆ *The introduction of standpipe metering.*
- ◆ *Sewage effluent re-use.* A consultant was engaged by council to assess the opportunities for and viability of effluent re-use in the City. According to Council, the report is currently under review. Council is continuing to maximise the use of recycled effluent at its sewage treatment works for both process and landscaping purposes.
- ◆ *The management of unaccounted for water.* Council will undertake a further review of leakage within the system in 1996/97. A review of the metering of parks, reserves and public places will be undertaken in the second half of 1996.

¹⁴ IPART, op cit. p55

¹⁵ Healthy Rivers Commission, *Williams River Inquiry: Issues Paper*, March 1996

¹⁶ IPART, *Water Demand Management, A Framework for Option Assessment, Water Demand Management Forum*, March 1996

The EPA and environmental groups have argued strongly for the removal of the 200 kilolitre water allowance. The submission from Council raises the following points regarding the water allowance:

- ♦ *Equity.* The water allowance ensures holiday homes pay for the fixed costs associated with the water and sewerage system.
- ♦ *Community health.* Elimination of the water allowance may discourage the use of water for health and hygiene purposes.
- ♦ *Local environment.* Elimination of the water allowance may discourage the care of public nature strips, reserves and gardens.
- ♦ *Revenue stabilisation*
- ♦ *Water demand.* The average annual residential water usage on the Central Coast is approximately 220 kL per annum. This compares favourably with other areas. Only small potential savings in usage are anticipated by Council from removal of the water allowance.

The Tribunal is keen to identify the impact of holiday homes (which tend to use only small amounts of water) on average annual residential water consumption figures for the Gosford and Wyong areas. The Tribunal anticipates that Council will provide information to enable such an analysis before the next price review.

In the Tribunal's view, Council has provided insufficient evidence in support of its contention that the water allowance of 200 kilolitres should be maintained. It is difficult to apply such a blunt measure to customers whose circumstances differ greatly (eg. a single person living in a unit as opposed to a family in a residential dwelling with a large non-native garden) without neglecting many opportunities for saving water. There are more direct and effective ways of ensuring health and safety standards are maintained.

The Tribunal anticipates that the reduction or removal of the water allowance will be a part of future pricing strategies. Council should therefore develop a proposal to address this issue before the next price review. The Tribunal will continue to work with Council towards estimating the marginal cost of water supply and wastewater treatment.

The submission from peak environment groups in NSW argues that the Tribunal should continue to oppose the prepaid water allowance. Fixed charges should, according to these groups, be a relatively small component of bills. With an increased usage component customers would have greater control over the size of their bills. The rationale behind the calculation of fixed charges is questioned by the environment groups.

5.5 Standards

* *standards of quality, reliability and safety of the services concerned [S15(1)(l)]*

5.5.1 Standards met by Gosford Council

Gosford City Council's water and sewerage functions comply with all regulatory requirements (EPA licence for effluent discharge and NHMRC/NSW Department of Health guidelines /requirements for water treatment).

	1992	1993 actual	1994/95	1995/96	1996/97 target
Drinking water quality					
1994 draft NHMRC guides met	yes	yes	yes	yes	yes
EPA licence compliance - ocean sewage treatment plant limits per cent					
biochemical oxygen demand	100	100	100	100	100
non-filterable residue	100	100	100	100	100
effluent re-use per cent	0	0	2.5		

Council has adopted a target of 100 per cent re-use of sewage effluent by 2005. As yet, there is no definitive plan as to how this target will be achieved. Neither capital costs nor associated increases in operating costs have been estimated. The Tribunal anticipates that Council will supply this information before the next price review. The submission from the environment groups argues that developing re-use markets is an important issue that needs to be addressed.

6. BASIS OF THE TRIBUNAL'S DETERMINATIONS

6.1 Medium term price path

The Tribunal's determination is for a medium term price path to allow Council to operate independently within the pricing guidelines over a three year period without the need for annual price determinations.

6.2 Methods of fixing maximum prices

A medium term price path for all services, other than developer charges, has been determined under Section 14 of the Act and the determination is attached to this report.

The Tribunal has chosen to determine a methodology for fixing maximum prices, under Section 14A of the Act, for water supply and sewerage developer service charges for provision or upgrading of water supply and sewerage facilities for new developments. Details are shown in 6.7 below and the determination is attached to this report.

6.3 The general level of water and sewerage charges

Having had regard to all the factors listed in Section 15 of its Act, the Tribunal has decided on a pricing structure based on the equivalent of a 12.5 per cent nominal reduction in charges in 1996/97 and increases of CPI-1.5 in the subsequent two years. This enables current consumers to benefit from Council's cost control programs by slowing the rate at which debt is eliminated and sharing the cost of infrastructure more equitably between the current and future generations. A slow down can be achieved by partly financing new

capital works with debt without impinging on repayment commitments under existing loan agreements. *Under both Council's proposals and the Tribunal's determination the level of debt is substantially below the level that would be expected in a commercial business.*

The reasonableness of the debt level that results from the Tribunal's determination can be assessed by applying the cash based ratios that are used by rating agencies. The results of that analysis are shown below¹⁷.

Ratio	Estimates			AAA	A
	1995/96	1999/00	2004/05		
Funds flow interest cover	3.4	4.8	5.5	4	2.75
Net cash flow/capex	2.5	3.8	1.0	1	0.6
Funds flow net debt pay back	5	3.3	2.2	4	9

The figures under the three years show the projected outcomes for each of the ratios. The last two columns show the results that would have to be achieved for an organisation with an excellent risk profile to obtain either a AAA or A rating. The NSW Treasury regards the A rating to be the minimum rating appropriate for a Government Trading Enterprise¹⁸. In all cases the projected figures for Council would give the minimum of an A rating.

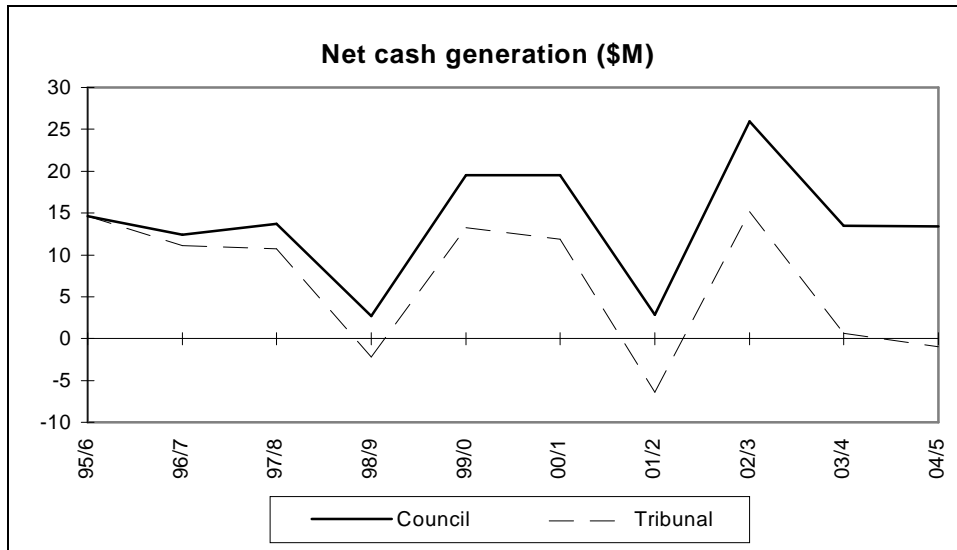
6.4 Net cash generation

The price determination made by the Tribunal allows Council to meet its expected capital expenditure commitments, both for new and replacement expenditure, while remaining within the parameters established above for capital structure.

The following graph portrays the amount of cash that is projected to be generated by the business after capital expenditure, but not debt reduction, has been allowed for. The two cases illustrated are: Council's preferred option without implementation of the net present value approach to the calculation of developer charges; and the Tribunal's determination after implementation of the new developer charges methodology. While the Tribunal determination only extends out to the year 1998 it is assumed for illustrative purposes that periodic charges increase by CPI- 1.5 per cent beyond that date. The figure shows that the result of the Tribunal's determination is close to the financial projections contained in Council's submission for the period of this determination.

¹⁷ NSW Treasury, *Capital Structure Policy for NSW Government Trading Enterprises*, August 1994, p21

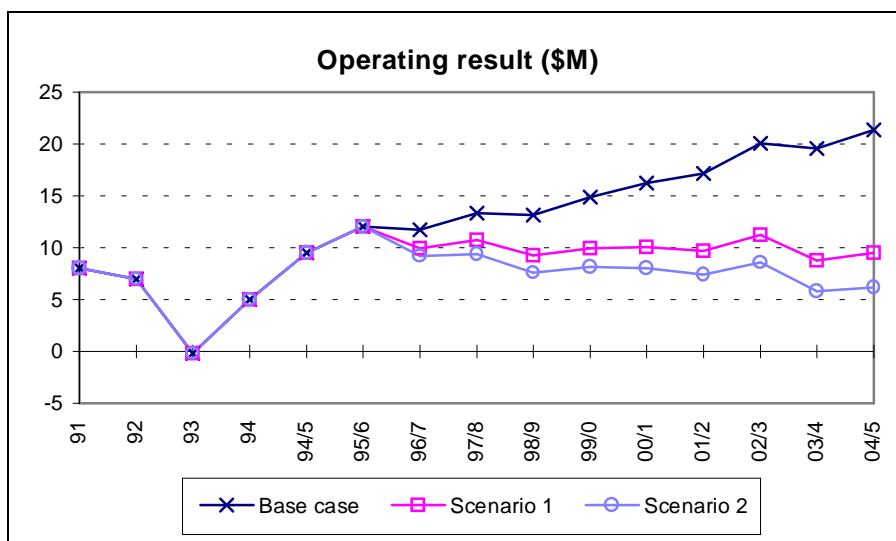
¹⁸ NSW Treasury, *Capital Structure Policy for NSW Government Trading Enterprises*, August 1994, p iii



6.5 Level of return

The following graph shows the relative profitability of the Council's combined water and sewerage operations under the following three scenarios:

- ◆ Base case: The price path proposed by Council plus a 25 per cent increase in developer charges.
- ◆ Scenario 1: 10 per cent nominal decrease in core revenue per property in 1996/97; CPI - 1.5 per cent cap thereafter; 25 per cent increase in developer charges.
- ◆ Scenario 2: 6 per cent nominal reduction in periodic water charges in 1996/97 and a 5 per cent real reduction in the subsequent two years; 12.5 per cent nominal reduction in periodic sewerage charges in 1996/97 and a 1.5 per cent real reduction in the subsequent two years; CPI - 1.5 per cent cap on periodic charges thereafter; 25 per cent increase in developer charges.



Scenario 2 illustrates the Tribunal's determination for the period to 1998/99. A price determination for the subsequent periods will be made prior to the commencement of the financial year 1999/2000.

The impact of the determination on Council's revalued asset base is to reduce the rate of return from 3.9 per cent in 1995/96 to 2.6 per cent in 1998/99. As discussed above, Council's asset base includes developer funded assets which need to be excluded to calculate an appropriate return figure. This information is not currently available to the Tribunal.

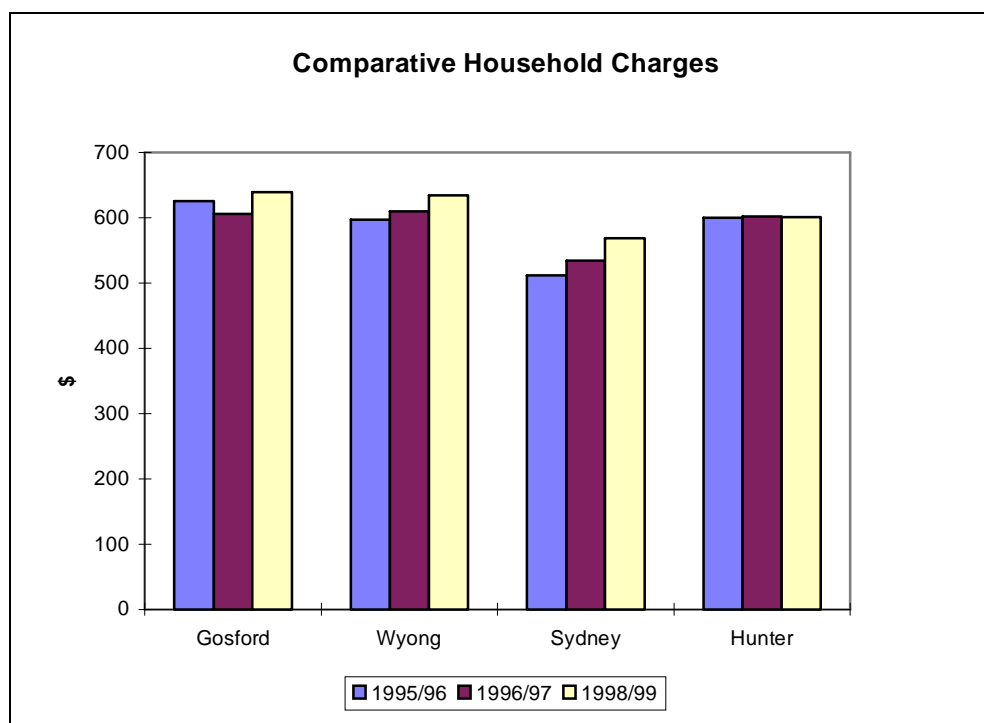
This fall in the rate of return is reflected also in the ratio of EBITD to Total Income. It is forecast to decline from 64 per cent in 1995/96 to 57 per cent in 1998/99. However, this remains substantially above the current figures for the other water suppliers (except Wyong) and capital intensive private sector comparators.¹⁹

On this basis, the Tribunal believes its determination leaves the water and sewerage operations in a strong financial position while appropriately taking account of the interests of the customers. The Tribunal has a number of environment related concerns with Council's pricing policies and expects Council to address these issues in its pricing proposals for consideration in 1999 (see below).

The reductions in Gosford City Council's water and sewerage charges are possible because the assets are fairly new (and hence the need to renew assets is low) and because of Council's good management of these assets.

6.6 Comparisons of water and sewerage charges

The following graph contrasts Council's proposed annual charges for a household consuming 220 kilolitres of water per year with the proposals of the other water suppliers for 1995/96, 1996/97 and 1998/99.



Note: The CPI-3 per cent option has been applied in the case of Hunter Water Corporation.

¹⁹ Refer to table on page 9

The water, sewerage and drainage charges **proposed** by Gosford City Council and Sydney Water for the year 1998/99 are shown below:

Charge	Gosford City	Sydney
Water		
- allowance/base charge	185	80
- excess/usage charge	<u>14</u>	<u>187</u>
sub-total	199	267
Sewerage	400 ²⁰	286 ²¹
Drainage	<u>40</u>	<u>16</u>
Total	639	569

Note: Drainage services within the Sydney Water catchment area are provided by both Sydney Water and local government councils

The Tribunal's **determination** will reduce the 1998/1999 average residential charge in Gosford City from the Council's preferred figure of \$639 (based on an average annual inflation rate of 3 per cent) to \$602.

Council's current kilolitre charge for excess water is 65 cents which contrasts with Sydney's proposed charge for 1998/99 of 85 cents.

The Tribunal expects Council to develop a proposal for the next price review which will eliminate the prepaid water allowance and increase the usage charge closer to the marginal cost of supply.

6.7 Developer charges

In the June 1995 price determination for Gosford City Council²² the Tribunal noted that it had not been able to complete its investigations into prices for developer charges for the provision or upgrading of water supply and sewerage services. The outstanding issues were considered by an Industry Forum consisting of representatives of the Tribunal's secretariat, the water agencies, Government agencies, environment groups and the housing development industry. The Forum was to facilitate discussion between developers and water suppliers, enable them to reach agreement on a number of specific issues, and advise the Tribunal of significant outstanding issues.

Under the Independent Pricing and Regulatory Tribunal Act 1992, the Tribunal may set maximum prices or may determine a methodology for setting maximum prices. The Tribunal has chosen to determine a methodology for fixing the maximum prices for developer charges under Section 14A of the Act.

²⁰ Gosford City Council treats all sewage to a secondary level

²¹ Sydney Water Corporation treats sewage discharged via ocean outfall to a primary level

²² Government Pricing Tribunal, *Gosford City Council Prices of Water, Sewerage and Drainage Services from 1 July 1995*, June 1995

The reasons for this decision have been outlined previously²³ and appear below.

“Developer charges are levied to recover water infrastructure costs incurred to service a large variety of developments. Individual price determination by the Tribunal could not cover the required diversity of developer charges. If agencies had to return to the Tribunal each time they received an application for an assessment of developer charges this would cause unworkable delays. The Tribunal would have to devote considerable time and resources to mechanically calculating charges, and would be completing work much better done by the agencies.”

“The Tribunal has stressed that developer charges must be calculated by a consistent and transparent methodology and recover efficient costs. However, it is impractical and inefficient to have the Tribunal do the great number of actual calculations and updates required. Developers include developer charges in their planning and investment decisions, they need a rapid response when applying for an assessment of charges. The NPV methodology will ensure agencies regulated by the Tribunal recover only the efficient costs of water and sewerage works, while allowing the actual calculations to be completed by the agencies in-house. The methodology will be applied in a transparent manner which can be tested by developers and monitored by the Tribunal.”

The parameters which are required to be determined by the Tribunal are:

- ◆ the holding charge (per cent)
- ◆ the discount rate (per cent) to be applied to new capital expenditure
- ◆ the forecast horizon for expected net revenue.

To ease the transition to the new developer charges methodology the Tribunal has determined that the holding charge should be set at zero. The discount rate has however been set at nine per cent consistent with the determination for Sydney Water Corporation. While a three per cent holding charge was determined for Sydney Water Corporation, it was applied to an existing asset base discounted by 40 per cent for assumed inefficiencies in construction. No similar discount has been applied to the existing assets of Gosford City Council’s water and sewerage operations.

The following table illustrates the difference in calculating developer charges using a holding charge of zero and a holding charge of three per cent. The figures have been supplied by Gosford Council and assume no change in periodic charges from current levels. With the proposed reduction in periodic charges these figures will increase. As an indication, under the Tribunal’s determination, the charge at Erina will be approximately \$5,995 and for redevelopment \$5,720 (assuming a holding charge of zero). The Tribunal understands from Council that the majority of new development will occur in Erina.

	Existing charge	Zero holding charge	3 per cent holding charge
Erina	4,834	5,157	7,786
Kariong	4,907	5,152	7,829
Kincumber	2,937	5,326	7,995
Lisarow	5,594	5,322	7,834
Narara	5,268	6,450	9,164
Redevelopment	3,804	5,221	7,732

²³ Government Pricing Tribunal, *Sydney Water Corporation, Prices of Developer Charges for Water, Sewerage and Drainage Services*, December 1995, p3

Consistent with the determination for Sydney Water Corporation, the forecast horizon period has been set at 30 years. The three parameters determined by the Tribunal will be subject to review as part of the next price determination.

The new methodology applies from the date of this report for all new developments or stages of developments unless a compliance certificate has been issued by Council or Council has written a 'notice of requirements'.

6.8 Other charges

6.8.1 Non-residential sewerage charges

The Tribunal's determination in June 1995 began to phase in usage pricing for non-residential sewerage customers. The impact analysis conducted last year showed significant variations in bills for some customers, hence the changes were to be phased in over five years. This determination continues that transition path.

6.8.2 Flat residential sewerage charge

The Tribunal's 1994 determination removed the property tax element of residential sewerage charges and announced the intention to move to one common flat sewerage charge for all residential customers. This implied significant changes in bills for individual customers. A transition path was therefore developed to reduce the impact of such changes in any one year. This determination continues that transition path.

6.8.3 Miscellaneous charges

Council has proposed minor variations to miscellaneous charges. The Tribunal concurs with these changes which are required because of changes in the costs of providing these services.

6.9 Other issues

6.9.1 Form of regulation

The attached determination shows the individual charges applicable from 1 July 1996.

The Inquiry into Water and Related Services²⁴ considered that the most appropriate form of price regulation for water and related services is a CPI±X cap applied to average revenue per property. The X factor is seen as providing a driver for continuing efficiency gains.

Therefore, for the 1997/98 and 1998/99 years, Councils revenue per property will be adjusted by applying a factor of CPI-X, where X is 5 for periodic water charges and 1.5 for periodic sewerage charges.

CPI will be the increase in the average all-groups CPI for Sydney for the four quarters to March on the average index value for the four quarters to the previous March.

6.9.2 Capital works audit

In 1995 the Tribunal engaged Sinclair Knight Merz to audit the capital acquisition processes of the four metropolitan water suppliers. The audit found some areas of concern within the

²⁴ Government Pricing Tribunal, *Inquiry into Water and Related Services*, October 1993

capital work processes followed by Gosford City Council. Council's proposed capital works program submitted for the purpose of price determination was not part of the review. As stated earlier the Tribunal has concerns over the size of the projected expenditure, particularly towards the end of the decade. The Tribunal believes a further audit of the figures projected rather than processes followed, is warranted. This issue will be examined before the next price review.

6.9.3 Compliance

Compliance with Tribunal determinations is an issue that will need to be addressed under section 18 of the Independent Pricing and Regulatory Tribunal Act 1992. The Tribunal will determine whether previous determinations have been followed. Council will need to provide evidence that periodic charges conform with Tribunal determinations on an annual basis.

6.9.4 Charges for servicing existing developments

Following its meeting on 14 May 1996, Gosford City Council requested that the Tribunal make a special determination on charges to an existing development, that is not currently serviced, to cover the cost of connection to the sewerage system. The Tribunal has refrained from making such a determination pending further consideration by the NSW Government.

7. NEXT PRICE DETERMINATION

In the absence of any major problems in the implementation of the price path the Tribunal's determination will continue for the next three years.

When the Tribunal considers the next pricing determination from July 1999 it proposes to review the following issues:

- ♦ the water allowance
- ♦ pricing anomalies between Council and other water suppliers
- ♦ application of the demand management framework
- ♦ sewer mining proposal
- ♦ Council's capital expenditure program
- ♦ principles of competition and access.

Thomas G Parry
Chairman
7 June 1996

Attachment - Other submissions

Submissions were received from:

Brisbane Water and Gosford Lagoons Catchment Management Committee

- ◆ In approaching pricing and valuation issues, the Committee is guided by the need to implement sustainability, and the key role that improved valuation, pricing and incentive mechanisms play.
- ◆ Environmental factors should be fully included in the valuation of resources, assets and service, using principles outlined in policy documents. For example
 - * Polluter pays ie those who generate pollution and waste should bear the cost of containment, avoidance, or abatement.
 - * The users of goods and services should pay prices based on the full life cycle costs of providing goods and services, including the use of natural resources and assets and the disposal of any wastes.
 - * Environmental goals having been established, should be pursued in the most cost effective way, by establishing incentive structures, including market mechanisms, which enable those best placed to maximise benefits and/or minimise costs to develop their own solutions and responses to environmental problems.
- ◆ Committee's concern is for expanding the scope for integration of environmental, economic and social concerns.

Department of Fair Trading, NSW

Council has been under pressure from the Tribunal to lower the price of water. It is understood the drive for this comes from current debt reduction being greater than the Tribunal believes is necessary. Lower pricing may act against the water conservation policies implemented by Council.

While equity in intergenerational debt transfer should continue to be sought, because many of the fiscal and technological indicators/mechanisms change over time, an optimum solution for debt transfer may be illusive. The Department recognises the Tribunal's intention to ensure that today's customers do not pay a higher than necessary price. The question is will reducing the total debt at a faster rate than fiscally necessary cause a greater distortion than decreasing the price.

The department recommends:

- ◆ Before any future price determination is made Council should provide
 - * local elasticity demand for water
 - * time frame for depreciation of current capital equipment
 - * expected maintenance cost over life of the resource
 - * capital costs and expected depreciation rates associated with the introduction of new capital equipment
 - * when the capital equipment is likely to be introduced.
- ◆ Council consider retro-fitting low pressure, low volume usage systems for low income group (cost to be made explicit in any future pricing strategy).

- ◆ Council examine whether groups disaffected by a move to a full 'user pays' policy could be compensated by a reduction in general council rates or through other types of Council transfer payments.
- ◆ To minimise cross-subsidy between customer classes, Council consider the introduction of a rebate scheme to provide customers with the incentive to conserve water.
- ◆ The 1997/98 pricing proposal could contain a survey of consumer preferences re the water allowance and a move to a full user pays system, and incidence effects of each pricing proposal (with strategies to deal with those adversely affected).
- ◆ Council consider the implementation of a guarantee of service.

Environment Protection Authority

- ◆ Commend Council on the demand management and sewage re-use policies being pursued.
- ◆ Issue of most concern is the water allowance.
 - * Without appropriate price signals, consumption decisions of consumers and the investment and operations decisions of industrial and commercial enterprises will be distorted (from an optimal use of society's resources).
 - * A water allowance is a very blunt tool to protect public health. In cases of financial hardship assistance could, and should, be provided in more targeted ways.
 - * Fears of a 'brown environment' are not supported by experience in the Sydney and Hunter regions. As long as people perceive that the benefits of applying water to nature strips, reserves and gardens outweigh the costs, these areas will still receive water.
 - * The fact that water usage on the Central Coast compares favourably with other areas does not imply that significant savings could not be made by removing the allowance. Currently only the last 11 per cent (on average) of water consumed attracts a usage charge. Even if water consumption was only reduced to the level prevailing in the Hunter, this would still represent a 'no-regrets' improvement of 5 per cent.
- ◆ The EPA supports the introduction of a two part tariff to reflect the full cost of service provision including environmental costs.

Peak Environment Groups, NSW

- ◆ No immediate five year price determinations

There is no evidence that agencies are in a position to allow removal from public scrutiny for more than one year. Important issues need to be examined: re-use markets; water conservation; implementation of previous Tribunal recommendations; ecologically sustainable development (ESD).
- ◆ Setting a framework for achieving ESD

Environment groups wish to know what steps the Tribunal has taken to meet the Section 15 requirements of its Act, especially regarding ESD.

- ◆ The need to remove pricing barriers to competition
 - * Support a uniform water, sewerage and drainage pricing terminology across agencies. The Tribunal is requested to create one set of terms for water, sewerage and drainage pricing in NSW.
 - * Insert new, and amend existing, pricing categories as outlined in Attachment 1 of submission.
 - * Remove current price barriers to competition. Pricing may create barriers to recycling, reuse and customer self sufficiency.
 - * Insert a new category of pricing for sewer mining. The Tribunal should recommend a zero or 'at cost' price for sewer mining as an incentive for re-use schemes.

- ◆ Issues relating to fixed charges
 - * Fixed charges for water, sewerage and drainage should be reduced. There needs to be greater clarity in the rationale for arriving at the current fixed charges.
 - * The Tribunal should continue to oppose a prepaid water allowance within fixed charges.

- ◆ Demand management

All water agencies should move toward a single price for water. Water restrictions should be maintained, particularly given community education objectives.

- ◆ Evidence required before price determination

The environment groups would like access to further information which they consider essential if they are to maximise their limited resources and continue to make submissions.



INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES

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

Matter No.: SRD/96/01
Determination: No 3, 1996
Agency: Gosford City Council
Services: Water supply, sewerage and drainage services.

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

Order dated 27 August 1992 - page 6431, Gazette No. 105

Maximum prices determined under Section 14 of the Act to be charged from 1 July 1996 for water, sewerage and drainage monopoly services (excluding water supply and sewerage developer charges for the provision or upgrading of water supply and sewerage services for new developments).

1. 1996/97 Charges

(a) Water Supply:

(i) Water Base Charges

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

Size of Service for Water Usage mm	Metered Base Charge \$	Unmetered Fire Service \$
20	168	84
25	263	132
30	431	216
40	672	336
50	1,050	525
65	1,775	888
80	2,688	1,344
100	4,200	2,100
150	9,450	4,725
200	16,800	8,400

Size of Service for Water Usage mm	Metered Base Charge \$	Unmetered Fire Service \$
Greater than 200	$(\text{nominal size})^2 \times 168$ 400	

The annual water base charge for each unit within a strata development is not to exceed \$168.

The annual water base charge for vacant unconnected land is not to exceed \$168.

(ii) Water Usage Charges

The maximum water usage charge for consumption up to 200 kilolitres a year for individual assessments is zero. The maximum water usage charge for consumption in excess of 200 kilolitres is 65 cents a kilolitre. The maximum water usage charge for unmetered fire services is zero.

(b) Sewerage Charges

(i) Residential Sewerage Charges¹

For a residential property whose sewerage charge is equal to or less than \$378 as at 30 June 1996 then the maximum sewerage charge is to be calculated as follows:

$$S_{(1)} = S_{(0)} + ((\$378 - S_{(0)})/3)$$

where:

$S_{(1)}$ = the maximum annual sewerage charge applicable from 1 July 1996.

$S_{(0)}$ = the applicable charge as at 30 June 1996.

except where $S_{(1)}$ exceeds $S_{(0)}$ by greater than \$50 then the annual charge applicable from 1 July 1996 is not to exceed $S_{(0)}$ plus \$50.

For a residential property whose sewerage charge is greater than \$378 as at 30 June 1996 the maximum sewerage charge is to be calculated as follows:

$$S_{(1)} = \$378$$

where:

$S_{(1)}$ = the maximum annual sewerage charge applicable from 1 July 1996.

¹Residential is defined as:

- * a single residential dwelling
- * residential dwelling plus one non-strata flat
- * residential strata unit

(ii) Non Residential Sewerage Charges

The maximum charges for non residential sewer base charges are:

Size of Service for Water Usage mm	Sewerage Base Charge \$
20	290
25	454
30	743
40	1,160
50	1,813
65	3,064
80	4,640
100	7,250
150	16,313
200	29,000
Greater than 200	$\frac{(\text{nominal size})^2 \times 290}{400}$

The maximum price for sewer usage charges is 68 cents per kilolitre.

The sewer usage charge is multiplied by a discharge factor. The discharge factor is the assessed percentage of water purchased from Gosford City Council which is discharged into the sewer.

The minimum amount payable by a non residential customer is \$290.

The maximum amount payable for sewerage services by a non residential customer is to be determined by the following formula:

$$S_{(1)} = S_{(0)} + ((X - S_{(0)})/4)$$

where:

$S_{(1)}$ = the maximum annual sewerage charge applicable from 1 July 1996.

$S_{(0)}$ = the applicable charge as at 30 June 1996.

X = the charge calculated using the above sewerage base and usage charges.

(c) Drainage Service Charges

Drainage service charges are not to exceed the charges as at 30 June 1996.

(d) Trade Waste Services

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

(e) *Recoverable Works*

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

(f) *Other water supply and sewerage services for which no alternative supply exists,*

The maximum charges for these services are listed in the attachment.

In 1997/98 and 1998/99 these charges may be adjusted by a factor of CPI - 1.5 per cent.

CPI is the increase in the average all-groups CPI for Sydney for the four quarters to March on the average index value for the four quarters to the previous March.

2. 1997/98 and 1998/99 Charges

(a) *Maximum revenue formula applicable in 1997/98 and 1998/99*

In the 1997/98 and 1998/99 years Council can adjust the above core revenue charges providing its average core revenue per property does not exceed the figures calculated by the following formula:

Maximum average core revenue per property in 1997/98 =

(Estimated average core revenue per property in 1996/97)*(CPI - X per cent)

Maximum average core revenue per property in 1998/99 =

(Estimated average core revenue per property in 1997/98)*(CPI - X per cent)

Where:

Core revenue equals income from periodic water and sewerage charges;

X equals 5 for periodic water charges and 1.5 for periodic sewerage charges;

and CPI is the increase in the average all-groups CPI for Sydney for the four quarters to March on the average index value for the four quarters to the previous March.

Methodology for the determination of maximum prices under Section 14A of the Act for water supply and sewerage developer charges for the provision or upgrading of water supply and sewerage services for new developments.

The reasons the Tribunal has chosen to make this determination by setting a methodology in terms of section 13A(1)(b) of the Independent Pricing and Regulatory Tribunal Act, 1992 are set out in Attachment 2 to this determination.

The determination is as follows:

1. A Net Present Value (NPV) methodology is to be used by Gosford City Council to calculate developer charges for water and sewerage infrastructure works.
2. Details of the methodology are set out in the guidelines in Attachments 2 and 3 to this determination.
3. The methodology applies from the date of Gazettal of this determination for all new developments or stages of developments unless:
4. Gosford City Council has given a written “notice of requirements” pursuant to Section 27 of the Water Supply Authorities Act 1987 in respect of a development in which case the assessment stands for the period specified in the notice of requirements
5. The parameters of the NPV calculation for Gosford City Council are:
 - a) A zero (0 per cent) discount rate on existing assets
 - b) A nine percent (9 per cent) real discount rate on future assets
 - c) A forecast horizon for expected net revenue of 30 years.

Thomas G Parry
Chairman
7 June 1996

Attachment 1**SEWERAGE FEES AND CHARGES**

	\$
Sewer Connection Fees	
New sewer (including 1 WC)	100.00
+ for each additional WC	35.00
Alterations (including 1 WC)	55.00
+ for each additional WC	35.00
Units/Villas 1 WC each flat or unit	75.00
+ for each additional WC per unit	35.00
Caravan connection fee	50.00
Sewer connection reinspection fee	50.00
Sewerage Drainage Plans Fees	
urgent request drainage diagram supplied within 24 hours	60.00
1 copy drainage diagram	30.00
Trade Waste Facilities	
Re-inspection fee	75.00
Sale of Sewer Connection Plan Books Charge	
Format 1 - A3 sheets in Cardboard Folder	300.00
Format 2 - A3 sheets in plastic pockets in three hard cover plastic folders	400.00
Annual charge for monthly updating service (posted monthly)	200.00

WATER FEES AND CHARGES

	\$
Water Supply Connection Charge	
Connection fee - 20 mm water service (Min 125/89 14/2/89)	300.00
Connection fee - water service in excess of 20 mm - Actual cost with minimum of	300.00
Metered Standpipe Charge	
Registration fee per annum	360.00
Standpipe deposit	600.00
Water usage charge for all water drawn from standpipes per kilolitre	0.60
Water Pressure Enquiry Fee	
Water pressure enquiry fee	80.00
Water Service Testing, etc.	
Special water metre reading fee	50.00
Meter testing fee	
- Domestic meters 20/25 mm	60.00
- Meters larger than 25 mm up to and including 40 mm	70.00
- Meters larger than 40 mm	100.00
Reconnection fee where service has been disconnected for non payment of account	60.00

GENERAL FEES AND CHARGES

Water and Sewerage main locations Actual cost with minimum of	85.00
Private works inspection fee	
- Private Works Sewerage/m	5.00
- Private Works Water/m	3.50
- Reinspection fee	50.00
Section 27 Certification Fees	
Dual Occupancies, Commercial Buildings, Factories, etc.	50.00
Torrens Subdivision of Dual Occupancies Subdivisions	100.00
Developments without Requirements Fee	300.00
Backflow Prevention Fees	
Registration of backflow prevention devices fee	30.00
	50.00

Attachment 2:**The Tribunal's preferred methodology for the determination of developer charges**

Under the Independent Pricing and Regulatory Tribunal Act, 1992, the Tribunal may set maximum prices or may determine a methodology for setting maximum prices. Section 14A lists a range of additional matters the Tribunal must take into account when setting a methodology. The Tribunal has chosen to determine a methodology for fixing the maximum prices for developer charges. In accordance with Section 13A(3) this section explains the reasons for this decision.

Developer charges are levied to recover water infrastructure costs incurred to service a large variety of developments. Individual price determination by the Tribunal could not cover the required diversity of developer charges. If agencies had to return to the Tribunal each time they received an application for an assessment of developer charges, this would cause unworkable delays. The Tribunal would have to devote considerable time and resources to mechanically calculating charges, and would be completing work much better done by the agencies.

The Tribunal has stressed that developer charges must be calculated by a consistent and transparent methodology and recover efficient costs. However, it is impractical and inefficient to have the Tribunal do the great number of actual calculations and updates required. Developers include developer charges in their planning and investment decisions, they need a rapid response when applying for an assessment of charges. The NPV methodology will ensure agencies regulated by the Tribunal recover only the efficient costs of water and sewerage works, while allowing the actual calculations to be completed by the agencies in-house. The methodology will be applied in a transparent manner which can be tested by developers and monitored by the Tribunal.

Attachment 3:

Guidelines for methodology to be used in calculating developer charges

Introduction

In its Final Report, Inquiry into Water and Related Services, the Tribunal emphasised the importance of ensuring that developer charges reflected the costs of providing water and waste-water infrastructure for urban development. In the absence of recurring charges which vary between different locations to reflect the 'true' costs of providing such services, up-front developer charges need to:

- provide better signals for resource allocation and usage
- provide better signals to reflect the environmental effects of urban development
- ensure the financial viability of extensions of urban water infrastructure.

However, the Tribunal is also mindful of the possible effects of such up-front charges on housing affordability. In setting the parameters for the calculation of developer charges the Tribunal will have regard to management of the impacts on affordability while ensuring that the charges provide a clear signal on the relative costs of urban development.

The Tribunal's Final Report endorsed in principle the use of the net present value (NPV) approach to the calculation of developer charges. In order to provide the framework for the implementation of the NPV method for calculating developer charges, the Tribunal:

- will from time to time set key parameters such as cost of capital, efficiency adjustment factors for asset values and the period of the analysis
- has published these guidelines for the calculation of developer charges
- has established the Developer Charges Forum to advise on issues associated with the calculation and levying of developer charges.

These Guidelines, which form the basis for calculating developer charges, should be read with reference to the principles outlined in the Tribunal's report 'Inquiry into Water and Related Services', October 1993.

The starting point is the principle that, subject to the need to maintain housing affordability, new development (and redevelopment) should meet the full efficient cost of the infrastructure provided for the development through either developer charges or annual charges. In general this objective is met by developers' constructing local distribution systems and paying for their share of off-site infrastructure works to service the development (allowing for future net annual revenues). In calculating developer charges the following factors need to be taken into account:

- major infrastructure works (existing or planned) serving the development,
- assets to which any new development should contribute and the proportion of those assets serving the development
- value of the infrastructure
- risk borne by the authority that is providing the infrastructure and the appropriate return to cover this risk
- contribution, in the form of future net annual charges, which will be paid by future occupiers of the development towards the efficient cost of infrastructure works less the

future expected annual operating, maintenance and administration costs of providing water related services. (This contribution must be deducted from any upfront charge.)

- the impact on housing affordability of applying a developer charge.

Coverage of methodology and guidelines

The NPV methodology and these guidelines are to be used by Sydney Water (SWC), Hunter Water (HWC), Gosford City Council and Wyong Council. Subject to any specific limitations included in the Tribunal's determinations for each agency, the NPV methodology is to be used for

1. all new developments from the date of the Tribunal's endorsement of these guidelines for use
2. all redevelopments from the date of endorsement of these guidelines for use, and
3. existing staged developments other than in respect of stages where a current development approval has been issued by the authority.

In the interests of equity, current charges should be used for existing developments (ie. developments or stages of development for which a relevant approval was issued prior to the date of endorsement of these guidelines and such approval is still current).

The Tribunal may set different parameters for the NPV model for each of the authorities. This will provide a necessary degree of flexibility in the model's application.

Maximum prices

Charges calculated using this methodology are maximum prices (Section 13A and Section 14A of the Independent Pricing and Regulatory Tribunal Act 1992). The authority and developer can negotiate a charge below this maximum charge. In these circumstances, the Treasurer must agree to the negotiated charge (Section 18 (2) of the IPART Act).

This could be achieved through specific case-by-case approvals. Alternatively, a more general approach for negotiation within defined limits may be possible.

Relationship to price paths and annual determinations

Existing developer charges are not the subject of review in accordance with these guidelines. An existing developer charges would exist where a consent approval for the development or stage has been issued by the water authority as at the date of endorsement by the Tribunal of these guidelines. Adjustments to existing developer charges will be made in the annual determinations and/or medium term price paths.

Calculation of developer charges using the net present value (NPV) approach

The net present value approach calculates the developer charges as:

- the cost of the assets used to service the development
- less the future net operating profits (or losses) expected to be derived from providing services to the development area.

The components of this calculation are as follows:

- K** - the capital charge for the existing or future assets calculated on a NPV basis which will serve the development or release area (see section 6.4)
- R_i** - the future periodic revenues expected to be received from customers in the development area in each year (i)
- C_i** - the future expected annual operating, maintenance and administration costs of providing services to customers in the development area
- r** - the cost of capital to be used in the calculation of the net present value of future revenues and costs
- n** - the forecast period for the assessment of future revenues and costs.

The definition and derivation of each of these components is discussed in detail below. The developer charge (DC) is calculated from estimates of each component as follows:

$$DC = K - NPV_r(R_i - C_i) \text{ for } i = \text{years } 1, \dots, n; n \leq 30$$

This charge is assessed for the development as a whole. Calculation of this charge requires estimates/projections of:

- the efficient cost of existing and proposed assets servicing the development
- the amount and timing of any investment in new infrastructure required to be built or advanced in timing due to the development
- the take-up rate of lots in the development and the take-up of asset capacity
- future annual revenues and costs per equivalent tenement (ET) or other appropriate charging criteria (eg hectare).

The following sections describe each of the components of the calculation in more detail and provide guidelines for the estimation or projection of costs and revenues.

Assessment of asset costs

Identification of relevant assets

Water authorities may seek to obtain contributions for providing, extending or augmenting services which the developments will, or are likely to, require. In assessing the costs of assets to be included in the developer charge, water authorities shall demonstrate that there is a nexus between the development and the assets which are to serve that development. These assets should be clearly identified in the Development Servicing Plans described in Section 12 of these guidelines. The efficient cost of these assets should be taken from an asset register or other source acceptable to the Tribunal (Such costs may be expressed as a cost per equivalent tenement (ET)).

Assets which are provided to service the development may be assets:

- which were already in the ground prior to the implementation of this methodology,
- constructed after the implementation of this methodology but prior to the commencement of the development, or
- which are constructed or to be constructed after the development.

Valuation of existing assets

Assets should be valued on the basis of replacement, or modern equivalent asset, costs. As a transitional measure, a reasonable proxy of these costs may be used. Where necessary, proxies for replacement costs may be established by:

1. the Tribunal setting adjustment factors to be applied to a utility's initial construction costs, or
2. the utility undertaking case studies to estimate relativities between initial construction costs and replacement costs. The case studies and estimates would be subject to external, independent review and discussion with relevant parties.

However, the Tribunal is concerned that such estimates should reflect the least cost and most efficient means of providing the service.

Where MEA costs are used, cost estimates should be based on the provision of the same quality of service using a modern equivalent asset within an optimised system design. The MEA value will vary from indexed historical costs as a result of relative productivity improvements due to technological change, variations between planned and actual urban development patterns and densities, and any past sub-optimal investment or development decisions. The values should not automatically assume the replacement of the assets in the same form or configuration. The Tribunal is concerned to ensure that prices reflect efficient costs. Where asset values based on actual costs exceed efficient costs, given today's knowledge and technology, asset values should be reduced accordingly.

The revision of asset values to MEA may create disincentives for the authorities to develop new technologies where these would devalue some of their current assets unless the anticipated rate of technological change is incorporated into the model.

In calculating the value of existing assets, the cost of design, construction and administration should be included.

The Industry Forum on Developer Charges will provide an opportunity for discussion and agreement on a set of efficient costs and may maintain a register of suitable unit costs for assets as a reference point for calculation of developer charges contributions.

Apportionment of assets

In respect of assets shared by a number of development service plans or forming part of a system, it is necessary to calculate the relevant capital charge for the system based on expected system utilisation estimates. The per unit capital charge can then be applied to each development on the basis of the expected capacity utilisation within the development. Typically, each asset will need to be assessed in terms of its design criteria and the calculated demand for the area to be serviced by it.

Calculation of capital charge to the development for existing assets

Given the estimate of the value of the assets, a capital charge may be calculated as follows:

- Estimate the period for full take-up of asset capacity. If information is readily available, actual take-up rates to date should be used. If not, the water authority could use an average based on similar release or development areas' take-up rate or other (better) estimates if available. An estimate of the take-up of existing unused capacity should also be made.
- Estimate the capital charge per ET (or hectare) necessary to equate the net present value of the stream of charges which would be derived from annual per ET (or hectare) charges and the costs of the assets.
- Calculate the charge for the development by multiplying the per ET (or hectare) charge by the number of ETs (or hectares) proposed in the development.

The Tribunal will set the cost of capital. A real cost of capital will be used and the resultant per ET (or hectare) charges may be indexed by the average increase (or decrease) in annual charges determined by the Tribunal.

Where:

1. the full capacity of an asset will be taken up by a development; or
2. the period of development covered by the DSP includes the full take-up period for the relevant asset,

the same calculation can be achieved through the following steps:

- The capital cost of the assets are fully assigned as a cost for the number of ET's in the DSP.
- The capital charge per ET is the NPV of a stream of projected contributions predicted by the DSP.
- The charge per ET may be iterated or calculated as the capital cost divided by the NPV of the ET take-up rate.

Exclusion of existing assets

In general, all assets providing services to the development should be included when calculating developer charges. The costs of an existing asset should be excluded from the calculation of developer charges:

1. if its capacity is unlikely to be fully utilised over the planning horizon relevant for that asset, or
2. if the required capacity was created before 1970, or
3. if capacity was made available by changes in land use patterns.

Exclusion due to excess capacity will occur most commonly in the case of infill development in long-established areas. If an asset was constructed to service earlier development and changes in land use have made surplus capacity¹ available then it is appropriate to delete the asset from any subsequent contribution calculation. This will reduce the contributions payable for developments utilising these assets and encourage the use of under-utilised assets.

¹ "Surplus capacity" exists where the asset has capacity which is unlikely to be fully utilised over the relevant planning horizon.

Estimation of costs of assets yet to be constructed

Two methods are available for inclusion of the costs of assets yet to be constructed. In either case it is essential that feasible options for meeting future needs be examined, including pricing and demand management options, and that the lowest cost alternative be chosen. In the first case, the assets may be specific to the development or related developments. In such cases, it may be assumed that if the development did not proceed, the assets would not be built. In other cases, such as dams, the expenditure is driven by growth widely dispersed throughout the system. In such cases, the development may affect the timing of the expenditure rather than whether the expenditure will occur at all.

In the first case the expected future expenditures would be included in the stream of future incomes and expenditures and discounted back to current values. If the assets will serve more than the area covered by the development, the capital charge applicable to the whole asset should be apportioned on the basis of the share of the capacity of the assets expected to be taken up by the development.

In some cases the development may temporarily use the capacity of an existing asset before construction of a new asset has been completed. If so, inclusion of the costs of both the existing and new assets would result in double counting. Only the costs of the new assets should be included.

Where the assets are part of a more general expansion of the system (i.e. the second case), the effect of a decision to proceed with development or not may be to alter the timing of the expenditure. In such cases, expected expenditures should be included using the second method which involves:

1. estimating the extent to which the development would bring forward the timing of the expenditures, compared with the timing if this development did not proceed
2. calculating the difference in the net present value of the expenditures due to the change in the timing of the expenditures
3. including the calculated cost as a cost to the development only if it exceeds the cost of any equivalent existing assets used by the development. The costs of the comparable existing assets would be excluded from the calculation.

In practice, standard per ET (or hectare) factors could be calculated for major planned works to avoid the re-calculation of steps 1 and 2 for each development.

Step 3 is necessary to avoid the double counting which would occur if the costs of both existing assets and the additional NPV cost for advancing future assets were included.

Demographic assumptions

Demand for services will, in part, be driven by assumptions on population growth and density (eg occupancy rates). Forecasts of population and densities should have regard to the latest projections published by the NSW Department of Urban Affairs and Planning for the same or a comparable local government area. Demographic assumptions used should be locality specific (eg at the LGA level) for local works and system wide (eg for all Sydney) for headworks such as dams and treatment plants.

Demand projections

Projections of the demand for water per household or discharges of waste water should have regard to corporate goals and objectives and estimates of future costs and revenues. This includes targets or objectives included in licence agreements or corporatisation frameworks.

Projection of operating costs

The operating, maintenance and administration costs (excluding depreciation and interest) of providing services to a development area should be based on the most efficient and lowest cost means of providing the services. The calculations should assume that current service standards will continue rather than anticipate possible increases in service standards. Subject to the Tribunal passing through costs, the costs of meeting higher standards will be recovered through periodic charges.

The costs should reflect costs associated with the specific services provided. System-wide averages should not be used if the costs of providing services to the development area vary significantly from the system-wide operating, maintenance and administration costs,

Projection of operating revenues

Operating revenues should be projected on the basis of the efficient operation of the authority's assets to best meet the needs of its customers given current service standards. On this basis, additional revenues to fund future backlog sewerage programs, for example, should be excluded. Unless differential charges have been approved by the Tribunal, it should be assumed that residential charges are uniform across the region of operation.

The Tribunal will set the parameters to be used for the projection of future revenues by each authority. These will incorporate the 4-5 year price paths to be agreed with each authority and take into account the structural changes for prices proposed in the Tribunal's report, *Inquiry into Water and Related Services*.

Estimates of future revenues will also depend on projections of future lot take-up in the development area. These will necessarily be specific to each proposal.

Discount rate

The Tribunal may set different cost of capitals for each water supplier. The real cost of capital will contain two components:

1. the risk free cost of capital. A proxy for this may be the Commonwealth bond rate or an indexed bond benchmark,
2. the business risk to the authority of providing infrastructure for future urban development which may vary.

In providing infrastructure prior to development, authorities face a number of uncertainties. These include the rate of connection, the cost of construction, and interest rates. To compensate authorities for accepting these risks, a risk adjusted return on capital investment should be built into developer charge calculations.

Typically, this return should represent the risk taken by the authority. Where the authority reviews charges regularly, for example, every five years, the risk factor should be less than

for an authority which sets a charge (adjusted only for inflation) for the life of a scheme. The return on existing assets will be less than that on new assets.

Period of analysis

Future operating costs and revenues should be projected over a 30 year period. Theoretically, operating revenues and costs could be projected over the life of the assets. In practice, a 20 year period is a long period for the analysis of a return on investment. However, in recognition of the long planning cycles and asset lives, the Tribunal considers that the inclusion of future incomes and expenditures should extend out beyond the twenty years. The discounting of future values reduces the impact of forecast errors, the further out in time these errors occur.

Adjusting for impacts

The impact of calculated developer charges will depend primarily on the valuation and treatment of past assets. It seems that, for some developments, the charges calculated using the methods outlined in these guidelines would be higher than those currently charged.

The Tribunal is concerned that developer charges should provide signals on the relative costs of servicing urban development. However, it is also concerned about the effect on housing affordability and needs to balance competing interests.

The Tribunal may seek to manage these impacts through transitional adjustment arrangements.

This adjustment may vary between authorities reflecting concerns with regard to the relative impacts of the charges.

Transparency

The Tribunal wishes to establish mechanisms which ensure that developer charges are fair and transparent. Transparency in the water authority's processes for calculating developer charges will assist in reducing the extent of regulation required and the likelihood of disputes.

In order to provide a transparent approach the Tribunal requires that, at a minimum, the water authorities provide the following information for each development.

The water authority is to prepare a Development Servicing Plan (DSP). The DSP is to specify, amongst other things:

- a summary of the contents of the DSP
- relevant land use planning information
- the extent of the catchment/supply zone
- the extent of services required to be staged over the anticipated development period
- estimates of future capital and operating costs
- standards of service that will be provided and design parameters

- estimates of lot and dwelling production including demographic assumptions
- timing of works and expenditures related to anticipated development and demographic assumptions
- the calculated developer charge and how it is projected to move through time
- a reference to other relevant DSPs.

The water authorities are to allow developers access to the models used in calculating the charge and provide copies to local councils and development industry associations.

Once the relevant approval has been issued, the calculated developer charge is to be registered with the Tribunal and should be published in an appropriate document at least annually.

Dispute Resolution

The Tribunal prefers that appeals be avoided as much as possible through a transparent and consultative process. These guidelines, in conjunction with the transparency requirements and the Industry Forum provide such an approach.

Despite this, it is possible that a developer may wish to appeal the charge levied by the water authority. A developer who is dissatisfied with how an agency has calculated a developer charge has a right to have the dispute arbitrated under section 31 of the Independent Pricing and Regulatory Tribunal Act 1992. The dissatisfied developer should first complain to the agency and the chief executive officer of the agency is to have the complaint reviewed. The developer, if still dissatisfied, may require the matter to be decided by an arbitrator whose decision is binding. (Copies of relevant section of the Act are attached).

The Water Industry Forum strongly supported having mediation available as an option for customers. The Tribunal supports the Forum's unanimous view that mediation should be available to the parties if they so wish. The Forum will compile a panel of possible mediators and will recommend to its constituents that they attempt mediation as a preliminary step to resolve any disputes.

Extracts from Independent Pricing and Regulatory Tribunal Act, 1992**Determination of methodology for fixing prices**

14A. (1) A determination of the Tribunal of the methodology for fixing the price for a government monopoly service may be made in any manner the Tribunal considers appropriate.

(2) In making such a determination, the Tribunal may have regard to such matters as it considers appropriate, including, for example, the following:

- (a) the government agency's economic cost of production;
- (b) past, current or future expenditures in relation to the government monopoly service;
- (c) charges for other monopoly services provided by the government agency;
- (d) economic parameters, such as:
 - (i) discount rates; or
 - (ii) movements in a general price index (such as the Consumer Price Index), whether past or forecast;
- (e) a rate of return on the assets of the government agency;
- (f) a valuation of the assets of the government agency;
- (g) the effects of pricing on environmental outcomes (including the sustainability of eco-systems) and the use of natural resources by the government agency.

Matters to be considered by Tribunal under this Act

15. In making determinations and recommendations under this Act, the Tribunal is to have regard to the following matters (in addition to any other matters the Tribunal 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 protection of the environment (within the meaning 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.

Disputes regarding application of determination of methodology

31. (1) A customer who is dissatisfied with the way in which a government agency applies the methodology in a determination referred to in section 14A may complain to the agency.
- (2) The chief executive of the agency is to review the complaint or cause it to be reviewed.
- (3) The customer, if still dissatisfied, may request the agency that the matter be reviewed by way of arbitration by an arbitrator, who is to be appointed by agreement between the customer and the agency. The agency is, subject to this section, to comply with any such request.
- (4) Costs of the arbitration are to be borne equally by the agency and the customer.
- (5) The regulations may exclude classes of determinations from the operation of this section and may make provision for or with respect to reviews and arbitration under this section, including:
- (a) the times within which complaints and requests are to be made;
 - (b) the circumstances in which complaints and requests may be dismissed without consideration;
 - (c) the determination of costs of arbitration.
- (6) Subject to this section and the regulations, the Commercial Arbitration Act 1984 applies to any such arbitration.



INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES

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

Matter No.: SRD/95/01

Report: No 3.1, 1996

Agency: Gosford City Council

Services: Water supply and sewerage developer charges for the provision or upgrading of water supply and sewerage services for new developments.

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

Order dated 27 August 1992 - page 6431, Gazette No. 105

Background

In Report No 1, 1995 on the determination of maximum prices for Gosford Council from July 1995, the Tribunal indicated that it had not completed its investigations of prices for water supply and sewerage developer charges for the provision or upgrading of water supply and sewerage services for new developments. Those issues were to be the subject of a separate report and determination at a later date.

The Tribunal has now considered the determination of maximum prices for such developer charges with its investigations of a medium term price path for water supply, sewerage and drainage prices for Gosford Council from July 1996. These matters are contained in Report No 3.2, 1996 and Determination 3, 1996.

Accordingly the Tribunal will not be making a determination on developer charges under this matter.