

GOSFORD CITY COUNCIL

PRICES OF WATER SUPPLY, SEWERAGE AND DRAINAGE SERVICES

Medium-term price path from 1 July 2000

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

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DETERMINATION NO 4, 2000		



INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES

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

Reference No: 99/177

Report: No 4, 2000

Agency: Gosford City Council

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

The Government monopoly services were declared by the Independent Pricing and Regulatory Tribunal (Water, Sewerage and Drainage Services) Order 1997, made on 5 February 1997 and published in Gazette No. 18 dated 14 February 1997 at page 558.

The maximum prices listed or calculated under sections 1 to 9 of this Determination are to apply from 1 July 2000 to 30 June 2003. The maximum prices for developer charges listed or calculated under section 10 are to apply from 1 July 2000 until replaced.

1 INTRODUCTION

The Independent Pricing and Regulatory Tribunal of New South Wales (the Tribunal) regulates the charges that Gosford City Council can levy for the water, sewerage and drainage services it supplies to residential and non-residential customers. Its role is to set the maximum prices the Council can charge for these services, in accordance with section 11(1) of the *Independent Pricing and Regulatory Tribunal Act, 1992*.

The 1999 price determination will expire on 30 June 2000. The Tribunal has undertaken an investigation and review, and has made a determination for the next 3-year period, from 1 July 2000 until 30 June 2003.

The main change resulting from this determination is a new approach to charging for water services. Gosford Council proposed removing the prepaid water allowance, and charging a fixed service fee of \$90 plus a per kilolitre water usage charge. Although the Tribunal supports this initiative, it believes the Council's proposed fee structure would have resulted in a significant rise in water charges for customers. It has therefore removed the prepaid allowance, but set a lower maximum water service fee of \$70 per annum¹ and allowed for a more gradual increase in the water usage charge over the next 2 years.

The Tribunal has reduced the sewer service charge for a residential customer by \$30 to \$341 for 2000/01. This charge has been reduced to keep the overall increase in the water and sewer bill for an average residential customer to \$17 in 2000/01.

The determination has had regard to detailed financial analysis of the Council's revenue needs for its water and sewer business. This analysis indicates that the prices the Tribunal has set will generate sufficient revenue for the Council to maintain a strong financial position, although it may need to reduce its accelerated debt repayment programs.

This report outlines the determination and the Tribunal's rationale in more detail. It sets out:

- the review process and regulatory framework
- the financial analysis that underpins the determination
- the prices set for each service and the implications for Gosford Council's customers
- the implications for the environment
- the implications for service standards.

The complete determination, which lists the maximum prices Gosford Council can charge for all water, sewerage and drainage services, follows this report.

¹ For a customer with a 20mm connection. The fixed charge for other customers varies in proportion to the cross-sectional area of the connection.

2 REVIEW PROCESS AND REGULATORY FRAMEWORK

2.1 What was the review process?

The Tribunal reached its determination after an extensive investigation and review process. This process began with the Tribunal releasing an issues paper, and Gosford City Council responding by submitting proposals for the maximum prices it believes it needs to charge for supplying water, sewerage and drainage services.

The Tribunal then invited the public and interested parties to make submissions on these proposals and other issues relating to the pricing of these services (Attachment 1 provides a list of submissions received). It also held a public hearing, where interested parties presented their views (Attachment 2 provides a list of presenters).

In addition, the Tribunal commissioned a consultant, Halcrow Management Sciences, to analyse the projected capital expenditure and operating costs of the four metropolitan water agencies under its jurisdiction.² Finally, it conducted its own analysis into the impacts of alternative pricing levels on Gosford Council, its customers and the environment, in line with Section 15 of the Act.

The Tribunal made its determination, taking into account all the information and analysis obtained through the process outlined above. The Tribunal members who considered this determination are Dr Thomas Parry (Chairman), Mr James Cox (Full-time Member), and Ms Cristina Cifuentes (Member).

Copies of all submissions, a transcript of the public hearing, and Halcrow's report can be viewed on the Tribunal's website at www.ipart.nsw.gov.au and are available for inspection at the Tribunal's office.

2.2 What pricing principles did the Tribunal follow?

In determining prices under the IPART Act, the Tribunal must have regard for a range of economic, social and environmental issues, listed in Section 15 of the Act. The requirements of this section are set out in Attachment 3 to this report. The Tribunal aims to achieve the following objectives in setting prices:

- economic efficiency
- financial sustainability
- promoting competition
- equity
- environmental sustainability
- simplicity and transparency
- certainty and control of the costs of regulation.

² The agencies are Sydney Water Corporation, Hunter Water Corporation, Gosford City Council and Wyong Shire Council.

These pricing principles are consistent with the requirements in Section 15. The extent to which the Tribunal has had regard to these requirements is outlined in Attachment 3.

2.3 What form does the price regulation take?

This determination takes the form of a price cap applicable over a period of 3 years. It sets specific prices for all services in 2000/01. For 2001/02 and 2002/03, Gosford Council will be able to vary these prices in line with inflation using a CPI-X formula.

In deciding on the price capping approach, the Tribunal took into consideration Gosford Council's argument that the alternative approach—revenue regulation—was difficult to apply to water services because demand, and therefore revenue, fluctuates from year to year with weather conditions. The Public Interest Advocacy Centre (PIAC) also supports price cap regulation for water and sewerage supply agencies.³ The Tribunal decided to set specific prices for the first year of the price cap to manage the impact on customers of removing the prepaid water allowance.

The Tribunal decided on a medium-term price path of three years. This period has several advantages over a one-year price path, including:

- providing the agency with an incentive to improve its efficiency and certainty about the basis on which its revenue can be obtained
- providing customers with certainty about what they will be charged
- reducing the regulatory burden imposed on the agency, thus enabling it to focus on running its business rather than on making new pricing proposals each year.

Although the Tribunal had suggested in its issues paper that a longer determination period might be appropriate, it opted for three years for several reasons. These include uncertainties about the environmental standards and capital expenditures the Council may have to meet after 2003. Given the relatively short regulatory period, the Tribunal does not envisage having a mid-term review.

³ Public Interest Advocacy Centre submission, p 4.

3 GOSFORD COUNCIL'S REVENUE NEEDS

One of the key questions the Tribunal considered in making this determination was how much revenue Gosford Council needs to earn from water, sewerage and drainage services to remain financially viable. Based on its analysis, the Tribunal believes that Gosford Council's water and sewer business can maintain a strong financial position with the revenues shown in Table 3.1. This is 11 per cent less than the Council's own estimate, and as a consequence, the Council will need to reduce its operating costs by improving its efficiency, and adjust its capital expenditure and accelerated debt repayment programs. The Tribunal believes this can be done with no reduction in the current standards of service.

**Table 3.1 Tribunal's estimate of Council's total revenue requirements
(\$ million of the day)**

	2000/01	2001/02	2002/03
Annual revenue requirement	37.9	38.5	39.1

The Tribunal arrived at these figures after considering Gosford Council's pricing proposals, and their impacts on customers and pricing outcomes. This generated a set of tariffs that were put into a financial model which uses a 'building block approach'⁴ to estimate the Council's revenue requirements. This approach sets the base revenue requirement as the sum of the estimated efficient operating costs and capital costs. Although capital expenditure does not explicitly appear in the building block formula, it is accounted for through additions to the asset base and reflected in its capital costs.

The Tribunal believes the building block approach is an effective method for estimating the revenue needs of the agencies it regulates. It notes PIAC's view that its use will establish consistency between regulated industries (eg electricity and gas), and that it offers greater transparency and accountability to consumers.⁵ However, there is a risk that relying solely on the outcomes of the building block approach could lead to procedure-bound methodology in which key decisions on major components of the revenue requirement are made in isolation. To avoid this risk, the Tribunal also has considered the overall implication of the resulting price paths. This involved analysing a range of financial indicators to ensure that its determination would not negatively affect Gosford Council's financial capacity or credit rating.

The remainder of this section outlines the main components of the Tribunal's analysis of Gosford Council's financial position that underpin its determination.

3.1 Operating costs

To determine the Council's efficient operating costs, the Tribunal considered the Council's forecast operating expenditure and potential for improving its efficiency. It also took into account the implications of the introduction of the Goods and Services Tax (GST).

⁴ For a more detailed description of this approach, see IPART, *Pricing for Electricity Networks and Retail Supply*, June 1999.

⁵ Public Interest Advocacy Centre submission, p 2.

3.1.1 Operating expenditure

The Tribunal believes Gosford Council can reduce its operating costs by 2.8 per cent per annum over the next three years, through greater efficiency. In reaching this view, the Tribunal relied on analysis by Halcrow⁶ on the projected operating expenditure of the Council.

In terms of its projected operating expenditure over the next few years, Gosford Council considers that there are limited opportunities to reduce this expenditure (Table 3.2). It expects its overall operating expenditure to increase due to the following pressures:

- increased maintenance due to the ageing of infrastructure
- increased electricity and bio-solid disposal costs
- increased licence fee costs due to the EPA's load based licensing system.

Table 3.2 Projected annual operating expenditure (\$ million of the day)

	2000/01	2001/02	2002/03
Council's proposed operating expenditure	22.1	23.5	24.3
Tribunal's estimate of required operating expenditure	21.6	22.3	22.4

Halcrow's overall view was that Gosford Council's water and sewer business is progressive and well managed. It has new infrastructure, is an integral part of the local community, and its small size enables its managers to have a more detailed knowledge of operations than those in larger businesses. Although its wastewater costs per connection are relatively high, benchmarking shows that Gosford's water operating costs per connection are comparable to the best-performing water businesses in Australia, England and Wales. The Council believes that the varying topography in its operating area results in higher operating costs due to relatively higher number of pumping stations and rising mains for the water and sewer infrastructure.⁷

While acknowledging the constraints of the local government environment—such as community expectations about council's role in providing local employment—Halcrow believes that Gosford Council can achieve an overall operating efficiency savings of between 2.1 per cent and 2.8 per cent per annum.

Halcrow acknowledged that Gosford has most of the decision tools in place to drive efficiencies in its water and sewer business. It believes that the Council could focus on the following areas:

- introducing schemes to generate client/service provider arrangements within the organisation, as other agencies have done
- selectively leasing or contracting out support services
- implementing proposed asset renewals, which should result in lower maintenance costs

⁶ Halcrow Management Sciences Ltd, *NSW Water Agencies' Review - Summary*, December 1999.

⁷ Transcript public hearing, p 11.

- developing separate Key Performance Indicators for the different business units and linking these to the budget system
- undertaking more research into system leakage and implementing the changes required to reduce this leakage.

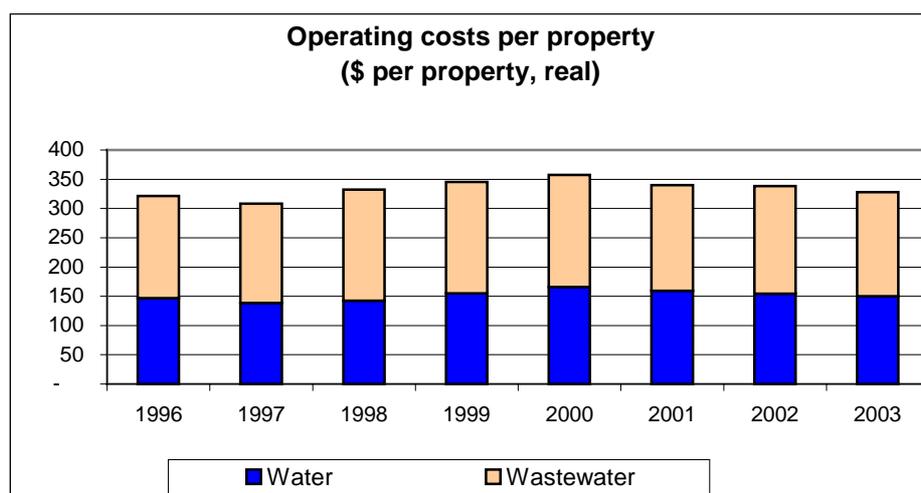
In addition, Halcrow believes that Gosford Council may have underestimated the efficiency savings it can achieve because it lacks appropriate systems to provide information on its real level of efficiency. For example, the current framework of service standards is subject to public consultation, but there is little understanding of customer views about the trade-off between price and service levels. The standards that exist at Gosford are not output based and do not provide Gosford with the vehicle to measure actual levels of service to the customer.

After close consideration of Gosford Council's projected operating expenditures and Halcrow's report, the Tribunal believes that there is scope for Gosford to achieve a 2.8 per cent efficiency saving in its operating expenditure—the high end of the range proposed by Halcrow. It has therefore reduced Gosford Council's total forecast operational costs by this amount in its estimation of Council's revenue needs.

The following graphs illustrate Gosford Council's historic and forecast operating costs per property and per kilolitre.⁸ For the years 2001 to 2003, the costs have been adjusted to include the impact of the GST and for the 2.8 per cent efficiency saving the Tribunal believes is achievable.

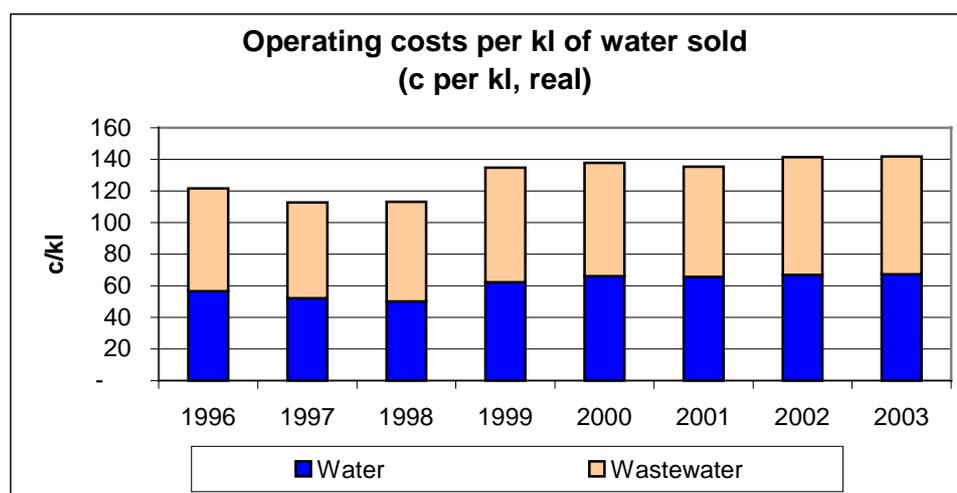
Figure 3.1 shows that over the current determination period, operating costs per property are projected to remain constant. Figure 3.2 shows that the operating costs per kilolitre of water sold are also projected to remain constant.

Figure 3.1 Operating costs per property – GST inclusive and adjusted by 2.8 per cent reduction



⁸ Forecast operating costs per property and per kilolitre include the Tribunal's efficiency factors.

Figure 3.2 Operating costs per kL – GST inclusive and adjusted by 2.8 per cent reduction



3.1.2 GST

The Tribunal has made an explicit adjustment to Gosford Council's costs as a result of the Federal Government's New Tax System (ANTS). The provision of water and sewerage services is GST-free.⁹ This means that the water utilities:

- will not be required to pay GST on their revenue and will not have to increase prices by 10 per cent
- will be able to claim back GST credits on their purchases
- will see decreases in input costs where wholesale sales tax equivalents have been paid, and indirectly as suppliers' costs decrease.

The Tribunal proposes to adjust prices from 1 July 2000 for the specific impact of the ANTS package on the utility, and will exclude the economy-wide impact of the package from subsequent price indexation. This approach has the benefit that there will be no 'windfall' loss or gain for the utility and the impact on the consumer will equal the net impact of the GST package on the utility.

As price regulator, the Tribunal has set in place procedures to assist it in satisfying itself that the effects of the ANTS package are appropriately reflected in prices charged by the utilities it regulates. This is separate to the Australian Competition and Consumer Commission's (ACCC) role on price exploitation under the Trade Practices Act. The utilities regulated by the Tribunal are required to comply with the Tribunal's determination (and its procedures on ANTS compliance) and the price exploitation guidelines of the ACCC.

In estimating Gosford Council's operating costs, the Tribunal has considered the various ways the Federal Government's new tax system could affect Gosford Council. These include reduced input costs due to the abolition of wholesale sales taxes, additional compliance costs associated with the new system, a windfall gain associated with the 'spike' in the September

⁹ GST-free means that no GST is levied on the sale of these goods or services and the registered business may also claim input tax credits.

quarter consumer price index (CPI) and subsequent impacts on the CPI, and an obligation to charge the 10 per cent GST on some of the services it supplies.

After careful consideration, the Tribunal made the following adjustments for the GST.

1. The Tribunal has estimated the cost savings as 0.3 per cent of revenue prior to the New Tax System. This figure was applied to both capital and operating expenditure.

To estimate these cost savings, the Tribunal required all regulated utilities to use an economic model, Econtech,¹⁰ to predict the cost savings that would arise from the new tax system. This model examines all costs of the regulated services, and calculates the direct and indirect tax savings for that business.¹¹

The Tribunal required each utility to engage an independent auditor to certify that the costs it used in modelling is an accurate and representative record of its costs. Econtech has also reviewed each agency's modelling and provided an opinion on whether the data used in the model was representative, and that the model was used correctly. In its financial modelling the Tribunal used only the short term impacts as a one-off adjustment in 2000/01.

2. The CPI value used to calculate charges in 2001/02 and 2002/03 excludes the impact of the GST. The Tribunal considers that using a CPI value that includes the effects of the GST would result in Gosford Council 'double-dipping'. The CPI formula for calculating charges for 2001/02 and 2002/03 will include the period from the September quarter 2000, which would normally include the effects of the GST. This means that using a CPI value that includes the GST impact to calculate the 2001/02 and 2002/03 charges would have resulted in a windfall gain to Gosford Council. The Tribunal will use a value of the CPI that excludes the GST impact.
3. No compliance costs were included in the modelling. Gosford Council indicated that these costs would be small.
4. Maximum prices were determined on the basis that all charges are GST-free. Section 38.1 of *A New Tax System (Goods and Services) Act, 1999* indicates that the supply of water, sewerage services and a service that consists of the emptying of a septic tank or draining storm water are GST-free. Further, under Section 81.5(2) of the Act, the Federal Treasurer can make a determination to exempt the payment of certain Australian taxes, fees and charges from GST. At the end of January 2000, the Treasurer made a draft determination covering some charges affecting Gosford Council but he is yet to issue a final determination. The Australian Taxation Office has issued a draft ruling that interprets Section 38 under which some (non-cash) developer contributions may not be GST-free. The maximum charges included in this determination have been made on the basis that the charges are GST-free. In the event that any of the charges listed in this or any other determination do attract GST, the Tribunal has developed an approach for including GST in the maximum prices.¹²

¹⁰ The Econtech model has been used widely, including by ACCC and the NSW Treasury, to assess GST impacts.

¹¹ Direct tax savings arise where the business no longer has to pay certain taxes such as wholesale sales tax. Indirect tax savings arise from the business's supply chain, as taxes previously embedded in its inputs are removed.

¹² This approach is outlined in the determination.

The Tribunal's approach to modelling is consistent with the ACCC guidelines on price exploitation and the new tax system.¹³

3.2 Capital costs

To estimate Gosford Council's capital costs, the Tribunal has established a valuation for the Council's existing asset base for regulatory purposes—that is, its regulatory asset base (RAB). It also considered its rate of return on these assets and depreciation (return of capital).

3.2.1 Regulatory asset base

The Tribunal has estimated the value of Gosford Council's regulatory asset base as \$227 million in 1999/00, using an optimised deprival valuation (ODV) approach. According to this approach, three underlying bases need to be considered:

- **Replacement cost**—the cost of replacing the existing assets with identical assets in the same condition (ie after allowing for depreciation). For regulatory purposes, these costs can be optimised by adjusting for technological change and past poor investment decisions (such as bad location for example). The value so obtained is called the Depreciated Optimised Replacement Cost.
- **Recoverable amount**—the future revenue stream, minus cash operating costs, that the assets will generate. This figure is then adjusted to today's dollars (ie present value) to allow for the time value of money (or interest cost). This is the 'Line in the Sand' (LIS) methodology referred to in previous determinations for Sydney Water and Hunter Water.¹⁴
- **Net realisable value**—if the assets are surplus to requirement, the value is the price the assets could be sold for in the open market.

Once an amount has been estimated for each of these bases, whichever is higher of the recoverable amount and the net realisable value is considered to be the Economic Value of the assets. Whichever is lower of the Economic Value and the Depreciated Optimised Replacement Cost (DORC) is the Optimised Deprival Value of the assets.

Since in the case of Gosford's assets, the DORC is certain to be much higher than the Economic Value,¹⁵ the Tribunal has estimated the value of the Council's assets by using the LIS methodology¹⁶ to determine their Economic Value. This resulted in a regulatory asset value of \$227 million for 1999/00.¹⁷ The Tribunal is likely to consider its valuation again when it makes its next determination.

¹³ ACCC, *Price Exploitation and the New Tax System*, March 2000.

¹⁴ The LIS value is equal to the present value of future free cashflows. For the current determination the LIS value as of the end of 1998/99 was estimated using the actual free cashflow in that year. The free cashflow is actual cash revenue less cash operating costs and renewals expenditure. The opening regulatory base for the regulatory period was obtained by rolling forward the 1998/99 LIS value one year to 1999/00.

¹⁵ Gosford values its assets at their so called Modern Equivalent Asset value which is comparable to DORC. At the end of 1998/99 Gosford valued its assets at \$525 million.

¹⁶ As the assets are clearly not surplus there is no need to test their net realisable value so the Economic Value is equivalent to the LIS.

¹⁷ The regulatory asset base of \$227 million includes \$8 million of working capital.

For financial analysis, the Tribunal has also estimated the value of the asset base for 2002 and 2003 by rolling forward the 2001 regulatory asset base (as described above) from year to year as follows:¹⁸

- the opening asset base at the start of each year is indexed by the CPI¹⁹
- projected capital expenditure (excluding capital contributions) is added and indexed²⁰
- depreciation and asset disposals are subtracted to obtain the closing asset base.

Attachment 4 provides the components of the regulatory asset base for 2001 to 2003.

3.2.2 Rate of return

The rate of return a regulated agency receives on its assets is a key element of its overall revenue requirement. Its rate of return multiplied by the value of its underlying asset base determines its dollar return. The Tribunal, therefore, needs to ensure the prices it sets will result in an adequate rate of return for the agency.

The prices set in this determination will result in a rate of return ranging between 5.5 per cent and 5.8 per cent (see Attachment 4), which the Tribunal believes is adequate for Gosford Council's water and sewerage business.

An adequate rate of return is one that enables the owners of a regulated business to finance its regulated undertakings and obtain reasonable returns in accordance with the risks involved. If the rate of return is too low, the regulated business may face financial difficulties and run short of capital. It would then have to reduce maintenance and capital expenditure to below optimum levels, resulting in lower levels of service and increased costs to customers in the long term. If the rate of return is too high, the business is likely to be charging higher prices, and this could result in it over investing in assets or building up cash.

The rate of return usually reflects a business' cost of capital. The Tribunal has estimated the agencies' likely Weighted Average Cost of Capital (WACC) using a range of underlying parameters,²¹ listed in Attachment 5. This resulted in a range of 4.8 per cent to 7.8 per cent on a real, pre-tax basis. For its financial modelling, the Tribunal has used a WACC of 7 per cent for all the agencies. The value of 7 per cent is for a commercial water agency.

¹⁸ The asset roll forward process is discussed in detail in the Tribunal's recent determination for the NSW electricity distributors, *Regulation of NSW Electricity Distribution Networks, Determination and Rules Under the National Electricity Code*, IPART, December 1999, p 53.

¹⁹ CPI inclusive of the ANTS effects.

²⁰ Capital expenditure occurs throughout the year. Half the percentage change in CPI (inclusive of the ANTS effects) is used because, on average, the capital expenditure would be incurred half way through the year.

²¹ For financial modelling purposes, the Tribunal has estimated the WACC for the agencies on a commercial basis. The WACC is a weighted average of the agency's cost of debt and equity. The agencies' cost of equity has been estimated using the Capital Asset Pricing Model. A detailed discussion of this methodology may be found in the Tribunal's recent determination for the NSW electricity distributors, *Regulation of NSW Electricity Distribution Networks, Determination and Rules Under the National Electricity Code*, IPART, December 1999.

Although the rate of return for Gosford is at the lower end of the range, the Tribunal considers that this rate is reasonable for Councils.²² This is because Councils are not subject to the financial distribution requirements of the NSW Government—that is, they are not required to pay dividends or tax equivalents—and they do not transfer the equivalents of such distributions from water and sewerage funds into general Council funds. Therefore, if they charged prices that reflected a commercial rate of return, it would result in higher prices for customers and a large build up of cash for the Council.

The final issue the Tribunal considered in relation to return on assets was working capital. The Tribunal recognises that any business must maintain an investment in working capital to allow it to manage the lag between payments to suppliers and receipts from customers. Because an investment in working capital is a necessary part of conducting the business, it should earn a return similar to investment in physical assets. For financial modelling, the Tribunal has used a nominal return of 10 per cent. This approach is consistent with the Tribunal's other recent determinations.

3.2.3 Depreciation

The Tribunal considered depreciation in estimating the Council's capital costs. It has determined to allow depreciation on the asset base established for regulatory purposes, and to adopt depreciation schedules based on the straight-line depreciation methodology.

In its submission, Gosford Council used an average asset life of 45 years for existing assets. However, in its financial modelling, the Tribunal used an average asset life of 75 years to depreciate the regulatory asset base. Since Council's sewerage and water infrastructure is relatively new, this is considered a more realistic estimate of its assets likely life span.²³

3.3 Capital expenditure

The Tribunal seeks to ensure that the prices it sets enable regulated agencies to fund prudent and efficient capital expenditure. In considering Gosford Council's proposed capital expenditure, the Tribunal has taken into account Council's need to meet agreed service standards, as well as future demand. The Tribunal has also considered the need to discourage over-investing in infrastructure, and the trade-off between capital expenditure, operating expenditure and demand management.

In its submission, Gosford Council projected a slight decrease in its capital expenditure on water and a significant reduction in capital expenditure on sewerage over the regulatory period (Table 3.3). The higher level of sewerage capital expenditure in 2000/01 is due to the projected expenditure on Terrigal and North Avoca pumping stations.

²² Gosford Council considered a 3 per cent rate of return on assets in developing its pricing proposal, Gosford City Council submission p 7.

²³ Halcrow commented that the majority of Gosford's water and wastewater infrastructure is new, p 41.

Table 3.3 Projected capital expenditure by business activity (\$1999/00, millions)

Activity	2000/01	2001/02	2002/03	Total
Water	2.4	2.4	2.1	6.9
Sewerage	8.5	3.4	1.6	13.5
Total	10.9	5.8	3.7	20.4

Source: Correspondence from Gosford City Council, 13 April 2000.

Table 3.4 shows that the primary factor driving capital expenditure is growth—more than 60 per cent of the total is related to expected growth in demand. The projected capital expenditure on standards is a small component of the total.

Table 3.4 Projected capital expenditure by driver (\$1999/00, millions)

Driver	2000/01	2001/02	2002/03	Total
Renewals (replacement and renewal of existing assets to maintain current capacity)	2.3	2.2	2.6	7.1
Standards (expenditure needed to meet new standards or environmental requirements)	0.2	0.1	0.2	0.5
Growth (expenditure to meet the expanding needs of existing and new customers)	8.4	3.5	0.9	12.8
Total	10.9	5.8	3.7	20.4

Source: Correspondence from Gosford Council, 13 April 2000.

After the Halcrow review, Gosford Council subsequently revised its projected capital expenditure program and provided new projections to the Tribunal. Table 3.5 compares the capital expenditure projections Council submitted to the Halcrow review and those submitted to the Tribunal.

Table 3.5 Comparison of Gosford Council's capital expenditure projected provided to Halcrow and the Tribunal (\$ millions)

Year	2000/01	2001/02	2002/03	Total
Capex projection submitted to Halcrow	11.6	6.7	2.9	21.2
Capex projection submitted to Tribunal	10.9	5.8	3.7	20.4

The Tribunal has reviewed the Council's projected capital expenditure program for the determination period, relying on the analysis and recommendations of Halcrow.²⁴ In general Halcrow's considered that Gosford Council could deliver its proposed service levels for lower capital expenditure. Halcrow identified the potential for efficiency gains ranging

²⁴ For a summary of Halcrow's findings see *New South Wales Water Agencies Review – Summary*, Halcrow Management Sciences Limited, December 1999.

between one per cent and 13 per cent of projected capital expenditure per annum, listed in Table 3.6.²⁵

Table 3.6 Potential to reduce capital expenditure through greater efficiency

Year	2000/01	2001/02	2002/03
Expected efficiency gain	1% to 2.5%	6% to 11%	8% to 13%

Source: Halcrow Management Sciences Ltd, p 53.

Applying the Halcrow efficiencies at the high end of the range to the capital expenditure projections Gosford Council submitted to Halcrow, provides a total of \$19.8 million over three years. Given Council has deferred some capital expenditure to 2002/03, the Tribunal has allowed for this in the financial modelling using a total of \$19.8 million (Table 3.7).

Table 3.7 Projected capital expenditure used in the Tribunal's financial analysis (\$1999/00, millions)

	2000/01	2001/02	2002/03	Total
Projected capex used in Tribunal's analysis	10.6	5.6	3.6	19.8

Figure 3.3 provides an overview of Gosford Council's historic and projected capital expenditure. The figure presents:

- Gosford's projected capital expenditure for water and sewerage from 1996/97 to 1999/00, estimated at the major determination in 1996.
- Gosford's actual capital expenditure over 1996/96 to 1999/00.
- Gosford's forecast capital expenditure for 2000/01 to 2002/03, estimated for the current review.
- The capital expenditure used by the Tribunal in the financial analysis for 2000/01 to 2002/03.

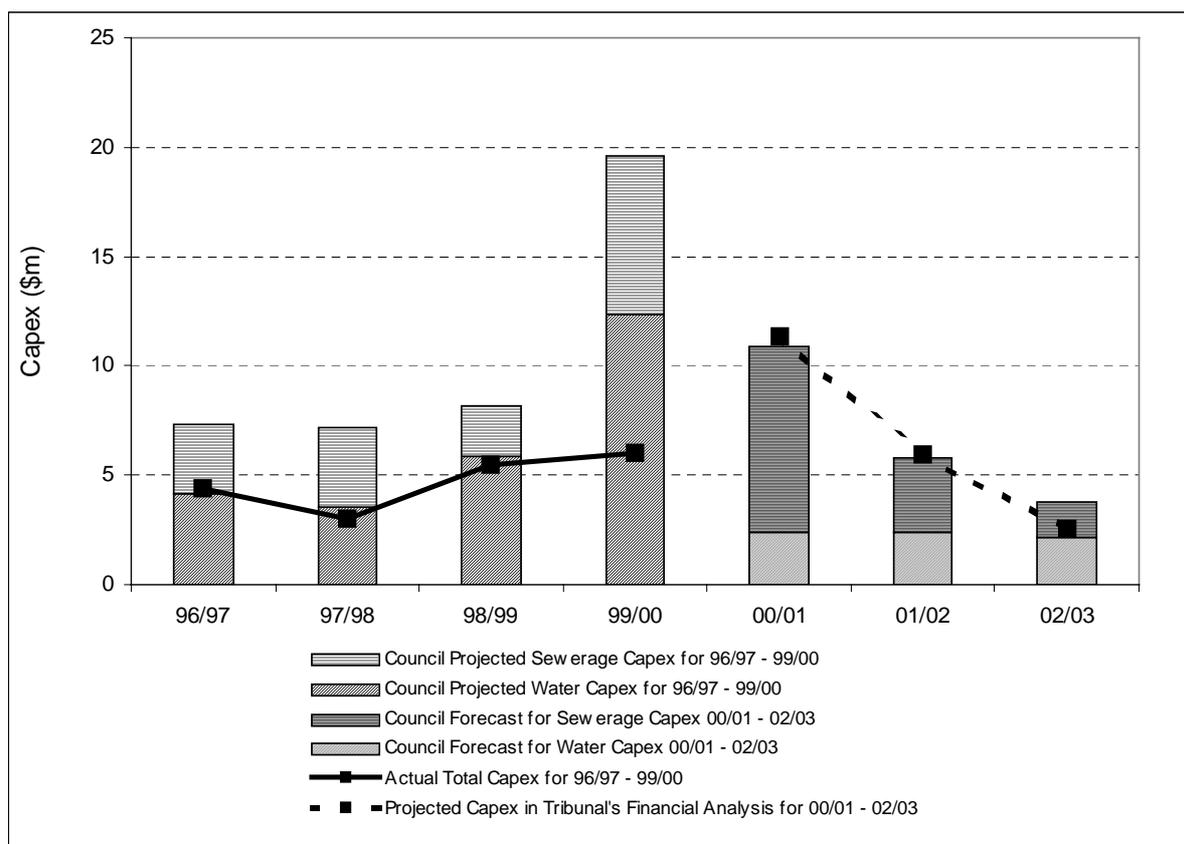
Figure 3.3 shows that over the last four years, Gosford Council underspent on capital expenditure by \$25.3 million on its forecast of \$44.2 million. This underspend was an important consideration in the Tribunal's decision to apply the capital efficiency gains at the high end of the range proposed by Halcrow.

²⁵ Halcrow's proposed capital efficiency gains for the NSW agencies are comparable with those recently proposed by Ofwat for the UK water authorities, as shown below:

Capital maintenance expenditure to maintain serviceability to customers of the networks. A stepped improvement in 2000–01 of between 0 per cent and 11 per cent in addition to 1.4 per cent per year leading to savings in the range 3 per cent – 15 per cent in the period to 2004–05.

Capital enhancement expenditure to meet new quality and environmental standards. A stepped improvement in 2000–01 of between 1 per cent and 19 per cent in addition to 2.1 per cent per year leading to savings in the range 7 per cent – 24 per cent in the period to 2004–05.

Figure 3.3 Forecast versus actual capital expenditure, historical and projected



3.4 Dividends and tax equivalents

In estimating the revenue requirement, the Tribunal has not included dividend and tax equivalent payments.²⁶ The Tribunal believes that, for this determination, any surplus income should be used to ensure that no customers are adversely affected by the removal of the prepaid water allowance.

Gosford Council's water and sewerage business is not subject to the State Government's financial distribution and tax equivalents regime. Nor does it make explicit dividend or tax equivalent payments to the Council's general fund.

Gosford Council²⁷ considers that it should be able to pay a dividend to the Council's general fund. Council has noted that there are conflicting objectives on this matter:

- competition policy which requires cost reflective pricing including a rate of return
- IPART's requirement for charges to be cost reflective and send a demand management signal
- the Department of Local Government's interpretation of Section 409(3)(a) of the *Local Government Act, 1993*.

²⁶ National Competition Policy competitive neutrality principles apply to 'category one' local government activities (Gosford's water and sewerage business is in this category). These principles require that prices reflect full cost recovery including an appropriate rate of return on capital employed and taxation equivalents.

²⁷ Transcript of public hearing pp 6-7 and correspondence from Gosford City Council of 16 March 2000.

Section 409(3)(a) of the *Local Government Act, 1993* would seem to preclude Councils from paying a dividend to the general fund from money it derives as a water supply authority.^{28,29} The Tribunal sought legal advice from the Crown Solicitor's Office on this issue. In response the Crown Solicitor has advised the Tribunal that:

Although the matter is far from clear, the better view is that surplus money, being the return on water and sewerage services provided by the Council, may be remitted to their general funds as dividends.

The Tribunal believes that this matter is far from being resolved. At the public hearing, Gosford Council indicated that it would obtain its own legal advice. Pending clarification, the Tribunal is reluctant to set prices on the basis that dividends will be paid by Council's water and sewerage business to the general fund of Council.

3.5 Financial indicators

The final major component of the Tribunal's analysis in relation to estimating Gosford Council's financial needs aimed to ensure that the prices it sets for water and sewerage services will not have a negative impact on the Council's financial capacity or credit rating.

This involved analysing a range of financial indicators which are commonly used by debt rating agency, Standard and Poors, and the NSW Treasury. These indicators were chosen on the basis of relevance, availability of information, and common usage in the financial community. They focus on the agency's financial capacity and ability to service and repay debt.

This analysis indicates that the prices set in the determination will enable Gosford Council's water and sewer business to maintain its strong financial position and current credit ratings³⁰ over the next three years (see Table 3.8). For example:

- The strong cash position of the Council with cash holdings increasing to \$30 million in 2002/03.
- The funds flow interest coverage and funds flow net debt payback indicate the Council is well able to service its debt.
- The gearing level (total debt to total capital ratio) is a low 15 per cent in 2000/01 and declines to zero over the determination period as debt is eliminated.

Together, these financial indicators show that the prices set through this determination will generate sufficient cashflow for Gosford Council to comfortably fund its operations, reduce its debt and meet its capital expenditure forecasts while at the same time maintaining appropriate standards.

²⁸ Section 409(3)(a) of the *Local Government Act, 1993* states: "money that has been received as a result of the levying of a special rate or charge may not be used otherwise than for the purpose for which the rate or charge was levied."

²⁹ This is the view expressed in correspondence that the Department of Local Government sent the Tribunal on 10 March 2000. "Currently, the Department considers that councils are unable to pay dividends from their water and sewerage funds to their general fund because it would conflict with section 409(3)(a) of the *Local Government Act, 1993*. In addition, the payment of a dividend would be seen as a probable attempt by the councils to subsidise general income from water and sewerage income."

³⁰ In evaluating the credit ratings for Gosford City Council, the Tribunal has compared them with the ratings corresponding to a business with an 'excellent' risk profile.

Table 3.8 Financial indicators and credit ratings for Gosford Council's water and sewer business

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Ability to service debt							
1. Funds flow interest coverage	3.9	3.6	4.7	10.3	28.6	(135.7)	(10.6)
S&P - US utilities (1995)	AA	AA	AA	AA	AA	>AAA	>AAA
2. Pre-tax interest coverage	2.3	2.4	2.7	3.7	7.8	(47.4)	(3.8)
S&P - US utilities (1995)	A	A	A	AA	AA	>AAA	>AAA
Ability to repay debt							
3. Funds flow net debt payback	3.3	3.4	2.1	1.0	0.2	(0.7)	(1.6)
NSW Treasury rating (1994)	AAA	AAA	AAA	AAA	AAA	>AAA	>AAA
4. Funds from operations/total debt	0.2	0.2	0.2	0.3	0.6	0.8	56.6
S&P - US utilities (1995)	AA	A	AA	AA	AA	AA	AA
5. Total debt/total capital	42	36	30	22	15	9	0
S&P - US utilities (1995)	AA						
Reliance on debt							
6. Internal financing ratio	909	5,478	1,122	935	261	658	2,168
S&P - US utilities (1995)	AA						
Net debt or (cash holdings) (\$m)	59	44	30	16	3	(11)	(30)

For a definition of each of these financial indicators used in the Tribunal's analysis, see Attachment 7.

4 MAXIMUM PRICES SET FOR EACH SERVICE AND IMPLICATIONS FOR GOSFORD COUNCIL'S CUSTOMERS

In addition to ensuring the prices it sets will enable Gosford Council's water and sewer business to remain financially viable, the Tribunal must consider the effect these prices will have on Gosford Council's customers. This section outlines the Tribunal's determination on the maximum prices the Council can charge for water, sewerage and trade waste, stormwater (drainage) and miscellaneous services, and discusses the implications of these determinations on both residential and non-residential customers. It also looks at the implications of the water charges on certain customer groups.

4.1 Water charges

The Tribunal has accepted Gosford Council's proposal to introduce a two-part water tariff, which involves removing the current prepaid water allowance for 200 kilolitres (kL), and charging customers a lower fixed service fee and per kL water usage charge. Most water supply companies already use this price structure, and it is widely accepted as being more efficient, equitable and financially viable. However, the Tribunal has modified the Council's proposed levels of these charges to reduce the impact on customers.

Residential and non-residential customers pay a water service charge, based on the size of the meter connection to the property, together with a water usage charge. Currently all customers pay a pre-paid water allowance for 200kL of water and a water usage charge for consumption levels greater than 200kL per year.

4.1.1 Implications for residential customers

Gosford Council³¹ proposed to alter the way it charges residential customers for water supply services by removing the prepaid water allowance of \$153 for 200kL of water, increasing the water usage charge each year, and reducing the water service charge, as summarised in Table 4.1.

Table 4.1 Gosford Council's current and proposed residential water charges

Year	Usage charge (per kL)	Service charge ¹ (per annum)
1999/2000 (current situation)	\$0 <200kL, \$0.65 >200kL	\$153
2000/2001	\$0.65	\$90
2001/2002	\$0.72	\$82
2002/2003	\$0.80	\$74

1 The water service charge is based on the size of the meter connection to the property. This charge is calculated for a 20mm connection.

2. These proposals were provided in \$2000/01 (correspondence from Council 16 March 2000) and CPI adjustments of 3per cent per annum were made.

The Tribunal's analysis indicates that the impact of this change on residential customers would vary, depending on the level of water consumption. As Table 4.2 shows, for customers with low levels of water usage it would have resulted in lower water charges.

³¹ Gosford City Council submission p 24 and correspondence of 16 March 2000.

However, more than 77 per cent of customers would experience higher charges. For those with water consumption levels of 200kL or greater, the Council's proposal would have resulted in a significant increase in their water bills.

Table 4.2 Impact of Gosford's proposed residential water charges by water usage level (\$ of day)

Water usage (kL per year)	% of Res. Customers	1999/2000	2000/01		2001/02		2002/03	
		Current	Actual	Increase or (decrease)	Actual	Increase or (decrease)	Actual	Increase or (decrease)
Vacant	3	153	90	(63)	82	(71)	74	(79)
>0 to 50	13	153	106	(47)	100	(53)	94	(59)
50-100	8	153	139	(14)	136	(17)	134	(19)
100-150	13	153	171	18	173	20	174	21
150-200	15	153	204	51	209	56	214	61
200-250	14	169	236	67	245	75	253	84
250-300	12	202	269	67	281	79	293	91
300-400	13	251	318	67	335	84	353	102
400-500	5	316	383	67	407	91	432	117
500-1000	4	511	578	67	623	113	671	161
>1000	0.8	998	1,065	67	1,164	166	1,268	270

Note: The increase or decrease in the water bill was calculated from 1999/00.

The impact was calculated using the mid-point of water usage, 1500kL was used for >1000kL.

The Tribunal believes this level of impact is too high. It has therefore modified the Council's proposal, after modelling the impact of a range of alternative pricing levels to determine a combination of service and usage charges with a less adverse effect on most customers. The Tribunal has set a maximum service charge of \$70 and usage charge of \$0.65 per kL for 2000/01. Gosford Council will be able to adjust the service and usage charges for 2001/02 and 2002/03 according to Table 4.3.

Table 4.3 Residential and non-residential water charges determined by Tribunal¹

Year	Usage charge (per kL)	Service charge ² (per annum)
1999/2000 (current situation)	\$0 <200kL, 65c >200kL	\$153
2000/2001	\$0.65	\$70
2001/2002	$\$0.675 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%)$	$\$70 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%)$
2002/2003	$\$0.70 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%) \times (1 + \text{CPI}_2^{-\text{GST}} - 3\%)$	$\$70 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%) \times (1 + \text{CPI}_2^{-\text{GST}} - 3\%)$

1 CPI and $\text{CPI}^{-\text{GST}}$ are defined in the Determination attached to this report.

$\text{CPI}^{-\text{GST}}$ means the CPI exclusive of the net impact of:

- the GST; and
- changes to any other Commonwealth, State or Territory taxes or charges, consequent upon the introduction of the GST.

2 The service charge is calculated for a 20mm connection.

The Tribunal has limited increases in the charges to CPI^{GST}-3%. This reflects the Tribunal's view that there should be no real increase in charges over the period of the price path³², and that Gosford Council does not need a real increase to maintain a strong financial position (see Table 3.8). This approach also allows for a moderate growth in the usage charge for water without adversely affecting customers.

The outcomes for residential customers from the Tribunal's decision on water and usage charges are shown in Table 4.4 below.

Table 4.4 Tribunal decision - residential water charges by water usage level (\$ of day)

Water usage (kL per year)	% of Res. Customers	1999/2000	2000/01		2001/02		2002/03	
		Current	Actual	Increase or (decrease)	Actual	Increase or (decrease)	Actual	Increase or (decrease)
Vacant	3	153	70	(83)	70	(83)	70	(83)
>0 to 50	13	153	86	(67)	87	(66)	88	(66)
50-100	8	153	119	(34)	121	(32)	123	(31)
100-150	13	153	151	(2)	154	1	158	5
150-200	15	153	184	31	188	35	193	40
200-250	14	169	216	47	222	53	228	58
250-300	12	202	249	47	256	54	263	61
300-400	13	251	298	47	306	56	315	65
400-500	5	316	363	47	374	58	385	70
500-1000	4	511	558	47	576	66	595	85
>1000	0.8	998	1,045	47	1,083	85	1,120	122

Note: The increase or decrease in the water bill was calculated from 1999/00.

The impact was calculated using the mid-point of water usage, 1500kL was used for >1000kL.

The Tribunal's decision on water charges means that residential customers with low levels of water usage will have large reductions in water charges in 2000/01. As an example, a customer with water consumption of 75kL per year will experience a reduction in charges of \$34 in 2000/01.

Most residential customers, however, will experience an increase in their water charges. A customer using 225kL of water per year, for example, will pay an additional \$47 in 2000/01, and an extra \$58 in 2002/03. This is a lower impact than would have resulted from Gosford Council's proposal, under which this same customer would have been charged an additional \$67 in 2000/01 and an additional \$84 in 2002/03.

In 2000/01 the maximum increase in residential water charges will be capped at \$47, irrespective of water usage. For the following two years, the size of the increase in the charges will depend on the level of water consumption. The Tribunal believes that this will give customers time to adjust their water consumption levels and minimise any increase in their water bills.

³² In making this decision, the Tribunal has assumed that inflation will be 3 per cent each year.

In addition, the capped increase in the residential water bill of \$47 in 2000/01 will be offset by a reduction in the residential sewer fixed charge of \$30 in 2000/01. Therefore, the maximum increase for residential customers' water and sewerage bill will be \$17 in 2000/01.

4.1.2 Implications for certain customer groups

The Tribunal recognises that certain customer groups may be more adversely affected than others by its determination on water charges. These include low-income large families, pensioners and tenants. Gosford Council may need to consider providing these customers with additional assistance.

Low income large families

Approximately one per cent of families in the Gosford Local Government Area are low-income large families.³³ These families are typically high water users, and so might experience significant increases in their water accounts as a result of the removal of the prepaid water allowance.

The Tribunal recommends that Gosford Council investigate how it could assist these families if they have difficulty paying their water bills under the new charging arrangement. Some mechanisms it might consider include advice on water saving, free fitting of water saving devices and, where appropriate, an additional rebate.

This recommendation is in line with the 1993/94 determination for the Sydney Water Board,³⁴ in which the Tribunal required the Water Board to put in place appropriate safety nets and transitional arrangements for potentially disadvantaged low-income groups and pensioners.

Pensioners

A significant proportion of Gosford Council's total accounts are pensioner accounts (around 17 per cent in 1999). Currently, pensioners receive a rebate of half their water and sewerage service charge, up to \$87.50 for each service, which is jointly funded by the Council and the Department of Local Government.

This situation will not change under the new pricing arrangements. Although with the removal of the prepaid water allowance, the service charge will be reduced and the usage charge increased, both Gosford Council and the Department of Local Government have advised that they will continue to provide pensioners with a rebate of half their total water bill.

The Department of Local Government provided the following explanation:

... the payment of rebates is governed by section 575 of the Local Government Act, which provides for Councils to reimburse half of the rate or charge, up to a maximum rebate of \$87.50 for both water and sewerage services. This section applies so that the rebate is calculated on the total bill, not just the service charge. There is no intention to

³³ Australian Bureau of Statistics Census 1996, Basis Community Profile, Catalogue No. 2020.0 (B24 and B26). Large families were defined as four or more children.

³⁴ Government Pricing Tribunal, *Water Board 1993/94 Prices of Water, Sewerage and Drainage Services*, July 1993.

alter the current arrangement whereby the Minister for Local Government reimburses the Councils with 55 per cent of the rebates paid by the Councils.³⁵

Tenants

Under the *Residential Tenancies (Residential Premises) Regulation, 1995*, landlords are able to incorporate provisions in the tenancy agreement that make the tenant responsible for water usage charges. For tenants where this is the case, the Tribunal's determination to increase the usage charge and decrease the fixed fee over the next four years could have a negative impact. This is because they will now be required to pay for every kL they use (rather than just the amount over the 200kL allowance), and will not receive the offsetting decrease in the fixed service charge. As the Public Interest Advocacy Centre³⁶ explains, there is no mechanism to ensure that landlords pass on the reduction in the fixed charge to their tenants. The Tribunal has noted PIAC's argument for "the most gradual phase-in possible of the proposed changes in order to reduce the price shock to customers",³⁷ and taken steps in line with this approach (see Section 4.1.1).

As tenants do not have a customer relationship with the Council, it would be difficult for Council to provide rebates to them to offset increases in water usage charges. The Tribunal therefore recommends that the Council investigate options for providing assistance to this group through its hardship committees or whether it can take action to encourage landlords not to pass through the additional cost to tenants.

4.1.3 Implications for non-residential customers

For non-residential customers, Gosford Council proposed to remove the prepaid water allowance of \$153 for 200kL of water and charge non-residential customers the same water usage charges as residential customers (Table 4.1).

The Tribunal decided to modify the Council's proposal for non-residential customers in the same way as it did for residential charges.

The impact of the Tribunal's decision for non-residential customers will depend on their level of water consumption per year. Those with a service connection of 20mm³⁸ will be affected in the same way as residential customers (see Table 4.4 above). More than 40 per cent of Gosford's non-residential customers use less than 100kL of water a year, and these customers will experience significant reductions in their water charges.

4.2 Sewer and trade waste charges

The Tribunal has determined that sewer service charges for residential and non-residential customers will be reduced in 2000/01, and will be adjusted by CPI-GST-3% in the following two years.

The residential sewer service charge will be reduced to \$341 in 2000/01. This is \$30 less than the charge proposed by Gosford Council. The non-residential sewer service charge will be reduced by \$22 to \$254 in 2000/01 and will be annually adjusted by CPI-GST-3%. The

³⁵ Correspondence from The Cabinet Office, 10 May 2000.

³⁶ Public Interest Advocacy Centre submission, p 10.

³⁷ Public Interest Advocacy Centre submission, p 10.

³⁸ Non-residential customers pay a water service charge based on the size of the service connection.

Tribunal has decided that trade waste charges will not increase in 2000/01, and will be adjusted by CPI-GST-3% in the following two years.

Residential customers only pay an annual sewer service charge. Non-residential customers pay an annual sewer service charge and a sewer usage charge, which depends on whether the property is classified as a trade waste discharger.

4.2.1 Residential customers

The Tribunal has rejected the Council's proposal to set the sewer service charge at \$371 in 2000/01 and to maintain this in real terms over next two years. The charge will be set at \$341 for the coming year. The Tribunal also modified Council's proposal to adjust this price by CPI in the following two years—instead it capped increases for 2001/02 and 2002/03 at CPI-GST-3% (Table 4.5), for the same reasons as outlined in 4.1.1.

Table 4.5 Tribunal's determination on residential sewer service charges

Charge	2000/01	2001/02	2002/03
Sewer service charge (per annum)	\$341	$\$341 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%)$	$\$341 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%) \times (1 + \text{CPI}_2^{-\text{GST}} - 3\%)$

4.2.2 Non-residential customers

Sewer service charge

The Tribunal has rejected Gosford Council's proposal that for non-residential premises, the sewer service charge (for a 20mm connection³⁹) be maintained at \$276 in 2000/01 and in the following years increase by CPI. Instead, the sewer service charge for a 20mm connection will fall to \$254 in 2000/01 and will be adjusted by CPI-GST-3% in the following two years.

Sewer usage charge

The Tribunal determined that the non-residential sewer usage charge in 2000/01 be maintained at \$0.70 per kL, increasing by CPI-GST-3% in the following two years.

Non-residential customers classified as trade waste dischargers pay a trade waste charge in addition to sewer usage charges. The charges for trade waste services depend on the quality of the discharge from the premise. If the quality of the discharge fails to comply with the trade waste quality standard in the Trade Waste Policy,⁴⁰ the charges for 'unacceptable quality' in Table 4.6 apply. Alternatively, if the quality meets the criteria then the charges for 'acceptable quality' apply.

The Tribunal has reviewed Gosford Council's submission and has decided that the trade waste charges in 2000/01 are to remain at the 1999/00 levels. For the following two years these charges are to be adjusted by CPI-GST-3% (Table 4.6).

³⁹ The charges for large service connections increase in proportion to the square of the meter size.

⁴⁰ The Trade Waste Policy is Gosford City Council's policy *Sewerage – Trade Waste (no. S3.01)*.

Table 4.6 Tribunal determination on trade waste charges in 2000/01 to 2002/03

Trade waste discharge	2000/01	2001/02	2002/03
Acceptable quality			
Excess volume (per kl)	\$0.20	$\$0.20 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%)$	$\$0.20 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%) \times (1 + \text{CPI}_2^{-\text{GST}} - 3\%)$
Unacceptable quality			
Volume (per kl)	\$1.30	$\$1.30 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%)$	$\$1.30 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%) \times (1 + \text{CPI}_2^{-\text{GST}} - 3\%)$
Biological oxygen demand (per 1,000mg/litre)	\$1.30	$\$1.30 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%)$	$\$1.30 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%) \times (1 + \text{CPI}_2^{-\text{GST}} - 3\%)$
Non-filterable residue (per 1,000mg/litre)	\$1.30	$\$1.30 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%)$	$\$1.30 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%) \times (1 + \text{CPI}_2^{-\text{GST}} - 3\%)$
Re-inspection fee	\$74	$\$74 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%)$	$\$74 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%) \times (1 + \text{CPI}_2^{-\text{GST}} - 3\%)$

4.3 Vacant land charges

The Tribunal has determined that Gosford Council can retain the vacant land charges for water and sewer service over next three years, but at a reduced level. As the Tribunal has made substantial changes to prices with the removal of the pre-paid water allowance in this determination, it will review vacant charges in the next determination.

Vacant land charge is a periodic charge for access or 'availability' to properties which are not connected to the water, sewerage or stormwater services but where the services are available for connection. Hunter Water Corporation does not currently charge for vacant land. Sydney Water⁴¹ is proposing to remove its charge of \$370.40. Gosford Council is proposing to retain their vacant land charges, but to reduce them over the next three years in line with the reduction in the water service charge. It is also proposing to reduce the sewer service component by \$95 in 2000/01 (Table 4.8).

Table 4.8 Gosford Council's proposed vacant land charges (\$ of day)

	1999/2000 Current	2000/01	2001/02	2002/03
Water service	153	90	82	74
Sewer service	371	276	284	293
Total	524	366	366	367

Note: an inflation rate of 3 per cent was assumed in 2001/02 and 2002/03.

⁴¹ Sydney Water Corporation submission, p 69.

The Tribunal has previously questioned the appropriateness of the vacant land charge. On the one hand, it may be argued that, regardless of the availability of services, charges should only be levied when services are used. On the other, agencies have to supply services for a defined area. In new areas, agencies assume that all properties will eventually connect to the system and, because it is economically more efficient, infrastructure is constructed on that basis. Moreover, the availability of the sewer is a benefit to the owner of the vacant land.

The water agencies now recover the capital costs of infrastructure for new land developments up-front through developer charges. Although the developer charge calculation currently deducts an amount for the potential revenue received from the property, this raises the question as to the extent to which water agencies should continue to rely on vacant land charges.

For this determination period, however, the Tribunal has decided Gosford Council can levy vacant land charges, as set out in Table 4.9.

Table 4.9 Tribunal's determination on vacant land charges (\$ of day)

	2000/01	2001/02	2002/03
Water service	\$70	\$70	\$70
Sewer service	\$254	\$254	\$254
Total	\$324	\$324	\$324

Note: an inflation rate of 3 per cent was assumed in 2001/02 and 2002/03.

4.4 Stormwater charges

The Tribunal has rejected Gosford Council's proposal to increase the Drainage Levy of \$40 by the CPI each year over the period of the determination. The Tribunal has decided that the levy should remain at \$40 in 2000/01 but in 2001/02 and 2002/03, the levy is to increase by CPI^{GST}.

Gosford Council operates most of its drainage functions from its general council business and not its water and sewer business. All of operating and maintenance costs and most of the capital costs are funded through the General Fund of Council. In 1991, the Council introduced a Drainage Levy to assist in funding a backlog of drainage capital works.

Gosford Council's projected level of capital expenditure on stormwater is substantial. In its submission, Council indicated that the outstanding capital works was \$113m.⁴² The Tribunal is reluctant to increase the drainage levy, particularly in light of the cash build-up in Council's water and sewerage business (see Table 3.8).

⁴² Gosford City Council submission, p 19.

4.5 Miscellaneous charges

In addition to water and sewerage charges, Gosford Council levies a range of miscellaneous charges for other related services. For this determination, proposals for these charges were detailed in separate submissions. The Tribunal has set a maximum fixed fee for every miscellaneous charge for each agency—those for Gosford Council can be found at the end of this report. These fees apply for the entire determination period, and no new miscellaneous charges can be introduced in this time.

4.5.1 Gosford Council's proposed charges

In late 1999, the Tribunal facilitated a Water Miscellaneous Charges Working Group (WMCWG) that included representatives of each agency and stakeholders. This group aimed to review the agencies' range of miscellaneous charges and to assist them in preparing their proposals.⁴³ It decided that the agencies would present their proposed charges in terms of the underlying material and labour costs involved, and show the level of overheads recovered, according to the formula below.

$$\text{Miscellaneous Charge} = \text{Base Cost} + \text{Direct Material Cost} + \text{Profit Margin}$$

Where: Base cost = [Direct cost of labour (including on costs) + transport + equipment] * [business unit overheads]

Gosford Council calculated its proposed charges using a base cost that assumed a direct cost of labour which varied from \$23 to \$33 per hour plus 50 per cent overheads. Gosford did not include a profit margin in the calculation.

4.5.2 Tribunal's determination and its implications for customers

In making its determination, the Tribunal used a base labour rate of \$25 per hour and overheads of 100 per cent (ie all inclusive labour rates of \$50 per hour), and no profit margin was allowed. It also adopted a number of charges that the WMCWG found were common services provided by all the agencies.

Although miscellaneous charges do not collectively account for a material proportion of total revenue from the water and sewerage business, they can be individually significant, particularly for low-income consumers.

In making its decision, the Tribunal took into account arguments made by consumer and environment groups. Both PIAC⁴⁴ and NCOSS⁴⁵ argued that the Tribunal should determine an exhaustive list of charges. NCOSS believes fixed miscellaneous charges impact harshly and disproportionately on low-income consumers, and that the agencies should not be able to introduce new charges without clearly indicating why this was necessary. PIAC was particularly concerned about the introduction of late payment fees and personal visit fees.

⁴³ The following stakeholder representatives were invited to participate in the WMCWG: Electricity and Water Ombudsman of NSW, Council of Social Services of New South Wales, Public Interest Advocacy Centre, NSW Department of Community Services, Urban Development Institute of Australia. Of those EQION, NCOSS and PIAC attended meetings. UDIA and a DOCS representative at Sydney Water were informed of outcomes.

⁴⁴ Public Interest Advocacy Centre submission, p 9.

⁴⁵ NCOSS submission, p 2.

PIAC and the PENGOS⁴⁶ considered it inappropriate to factor in a profit margin. The PENGOS believed that there should be no increase in the level of the charges. PIAC argued for common service levels for common charges.

4.6 Developer charges

The Tribunal has decided to delay any changes to the methodology for calculating the maximum charge for supplying water and sewerage services to new developments. A determination for developer charges will be released in conjunction with the medium-term determination for Sydney Water Corporation.

Developer charges are up-front charges paid by developers to water agencies to recover the infrastructure costs incurred in servicing new developments. In Determination Number 4, 1996, the Tribunal established a methodology⁴⁷ for Gosford to calculate developer charges. In the Issues Paper, the Tribunal indicated that it would review a number of matters raised by the development industry. The Tribunal has received a number of submissions and would like to consider any changes in the context of the Sydney Water review. As the Tribunal considers that any amendments to the methodology should be applied at the same time by all agencies, it will not be making a determination at this time.

The maximum prices for developer charges continue to be calculated by applying the methodology applicable as at 30 June 2000.

⁴⁶ PENGOS submission, p 10.

⁴⁷ The methodology was established under section 13A(1)(b) of the *Independent Pricing and Regulatory Tribunal Act, 1992*.

5 IMPLICATIONS FOR THE ENVIRONMENT

The Tribunal believes its decision to change the way consumers are charged for water, so their water bill depends more on the amount of water they use, sends an important price signal that will help manage water demand. However, further efforts are required.

A continued focus on water demand management is important to ensure that in the future the competing interests of customers and the environment (eg environmental flows in water catchments) can be met. As Council considers that demand for water is currently inelastic to price, the Tribunal urges the Council to continue its current initiatives and explore further mechanisms to reduce water usage, including the following.

- 1. Providing incentives for consumers to install water saving devices.** Although the SEDA Smart Showerhead Program⁴⁸—which provides financial incentives for consumers to purchase water efficient showerheads—has not been successful to date, the removal of the prepaid water allowance may change this. The 200kL allowance meant that only large users gained a financial benefit from reducing their usage; under the new pricing arrangement, all water users will save money if they reduce their usage. Council should consider PIAC's suggestion that such retro-fitting campaigns should be funded by the increase in user charges.⁴⁹ It should also note the PENGOS' suggestion that similar incentives should be provided for the installation of rainwater tanks, water efficient equipment, composting toilets and grey water recycling systems.
- 2. Reducing leakage.** The Tribunal notes that the Council undertook a leakage investigation study in 1997 and proposes a further review in 2000.⁵⁰ The results from such studies are important for developing programs to reduce leakage.
- 3. Promoting increased reuse of sewage effluent.** The Council⁵¹ has recently investigated potential effluent reuse schemes in the following areas: non-potable urban reuse, agriculture and horticulture reuse, and industrial reuse. The Tribunal is keen to see progress in reuse projects over the next three years.
- 4. Education programs on demand management.** In the public hearing,⁵² Gosford Council identified education programs (eg Water Week) as the major instrument for demand management.

These recommendations are in line with those put forward by the PENGOS,⁵³ who also recommended that the Council introduce water audits for large users, and promote increased reuse of sewerage effluent.

⁴⁸ Gosford City Council submission, p 15.

⁴⁹ Public Interest Advocacy Centre, submission to Medium Term Price Path for Water Agencies, January 2000, p 11.

⁵⁰ Gosford City Council submission, p 15.

⁵¹ Gosford City Council submission, p 15.

⁵² Transcript of public hearing, p 20.

⁵³ PENGOS submission, p 13.

6 IMPLICATIONS FOR STANDARDS

In making this determination, the Tribunal has taken into account Gosford Council's need to meet a range of service, quality and environmental standards over the period of the determination. In particular, it is required to:

- meet environmental standards imposed by the NSW Environment Protection Authority (EPA), NSW Fisheries and the Healthy Rivers Commission.

In addition Gosford Council has elected to:

- meet National Health and Medical Research Centre (NHMRC) Water Quality Standards
- meet specific service standards (water reliability, continuity, and supply adequacy see Attachment 7).

Unlike Sydney Water and Hunter Water, Gosford Council does not have an operating licence that establishes appropriate service standards. Rather, Council has set these standards internally. In some instances it is not clear what is required under these standards. For example, Gosford Council has set for itself the following water supply adequacy standard:

Minimum operating pressure of twelve (12) metres head at the property boundary.

The Tribunal is concerned that customers are unlikely to understand what this means for them.

Although the Tribunal's role is not to set or regulate standards, it has a legitimate interest in this area. The prices it sets for a particular service should be based on a clear understanding of the service standards to be delivered for that price. This is important as there is generally a trade-off between price and service levels, and the Tribunal needs to balance incentives to reduce costs with incentives to maintain and improve service standards.

In particular, the Tribunal believes a common regulatory framework that specifies clear, unambiguous standards, and requires the agencies to track and report their performance against these standards needs to be developed. This would help to overcome several shortcomings in the current situation, including:

- **Fragmented responsibility for setting standards.** For example, Gosford Council does not have an operating licence which sets out the operating standards it must achieve (as do Sydney Water and Hunter Water). It uses the NHMRC Drinking Water Guidelines as a basis for its water quality standards, and the EPA is responsible for regulating discharges to the environment.
- **Different service standards and performance targets among the four water agencies.** Halcrow found⁵⁴ that it was difficult to compare the four agencies in NSW and that there are wide variations in their service standards and performance targets (see Attachment 7).

⁵⁴ Halcrow Management Sciences Limited, *New South Wales Water Agencies' Review – Summary*, December 1999, p 9.

- **No mechanism for ensuring the standards the agencies aim to meet are appropriate,** and based on their customers' expectations and willingness to pay. Halcrow observed⁵⁵ that each agency's service levels seem to have been chosen to reflect the capability of the system rather than their customers' expectations.

If such a framework was in place, the Tribunal would consider introducing financial incentives for the agencies to provide and maintain service standards in excess of minimum standards. Examples of such incentives include an adjustment to price limits in the first year of the regulatory period to reflect the overall standard provided to customers,⁵⁶ and an allowed adjustment to prices to reflect the difference between actual and target reliability levels.⁵⁷

The Tribunal believes the prices it has set for water and sewerage services are sufficient for Council to meet its service standards. Further, it expects Gosford Council to achieve the cost reductions implied in the determination through greater efficiency, not reduced service levels. The Tribunal will examine the extent to which the Council has met these requirements when it makes its next determination. In addition, it is keen to see Gosford Council (and the other water agencies it regulates) make significant improvements to the way they set and specify the standards they will meet, and track and report their performance against these standards.

⁵⁵ Halcrow Management Sciences Limited, *New South Wales Water Agencies' Review – Summary*, December 1999, p 19.

⁵⁶ This incentive was introduced by the UK Office of Water Services in its most recent determination, Final Determinations, *Future water and sewerage charges, 2000-05*, pp 99-101.

⁵⁷ Such a mechanism was proposed by the Office of the Regulator General in Victoria, in its report, *2001 Electricity Distribution Price Review, Draft Decision*, Chapter 3 and Appendix E.

ATTACHMENT 1 LIST OF SUBMISSIONS

Submissions were received from the following organisations in regard to Gosford City Council:

Central Coast Community Environment Network
Central Coast Regional Catchment Committee
Council of Social Services of New South Wales
Gosford City Council
NSW Environment Protection Authority
Peak Environmental Non-Government Organisations
Public Interest Advocacy Centre

ATTACHMENT 2 PRESENTERS AT PUBLIC HEARING

The list of presenters at the public hearing on 10 March 2000 were:

Mr Peter Wilson, General Manager of Gosford City Council
Mr Terry Bowditch, Manager Water and Sewerage Services, Gosford City Council
Mr John Dawson, General Manager of Wyong Shire Council
Mr Greg Ashe, Manager Finance Resources, Wyong Shire Council
Mr Ken Grantham, Water and Waste, Wyong Shire Council

ATTACHMENT 3 IPART ACT REQUIREMENTS

Section 15 compliance

Section	Reference
s15(1)(a) the cost of providing the services concerned	The costs of providing water services to customers are discussed in Chapter 3 .
s15(1)(b) the protection of consumers from the abuses of monopoly power in terms of prices, pricing policies and standard of services	<p>Chapter 4 discusses how the Tribunal has managed the transition from a prepaid water allowance to a two part tariff.</p> <p>Chapter 4 also addresses price changes over the regulatory period. In general the Tribunal has increased prices by CPI-X.</p>
s15(1)(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	Chapter 3 discusses appropriate profit margins and rates of return for Gosford Council.
s15(1)(d) the effect on general price inflation over the medium term	Constraints on the movement of individual tariffs for customers are detailed in Chapter 3 . These will ensure that the impact of the Tribunal's determination will have a negligible impact on general price inflation over the medium term.
s15(1)(e) the need for greater efficiency in the supply of service so as to reduce the cost for the benefit of consumers and tax payers	Efficient operating costs and capital expenditure are discussed in Chapter 3 .
s15(1)(f) the need to maintain ecologically sustainable development (within the meaning of section 6 of the Protection of the Environment Administration Act 1991) by appropriate pricing policies that take account of all the feasible options available to protect the environment	Chapter 5 discusses issues relating to the environment.
S15(1)(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	Chapter 3 discusses appropriate profit margins for Gosford Council. In making this determination, the Tribunal has considered dividend requirements. However, the Tribunal has noted the legal position put forward by the Department of Local Government on the payment of dividends to the council. Legal advice provided to the Tribunal suggests that payment of dividends may be possible. Due to the uncertainties the Tribunal has taken the view that rather than increasing prices so that a dividend could be made, excess funds should be used to reduce the impact of removing the prepaid water allowance.
s15(1)(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	Not applicable

Section	Reference
s15(1)(l) the need to promote competition in the supply of the services concerned	The Government has not created any provision for the establishment of competition in the supply of water and sewerage services
s15(1)(j) consideration of demand management (including levels of demand) and least cost planning	Chapter 5 addresses the impact on demand management practices.
s15(1)(k) the social impact of the determinations and recommendations	<p>Chapter 4 sets the constraints in movements of individual tariffs. This determination has been designed to minimise price increases.</p> <p>Chapter 4 outlines the maximum price Gosford can charge for a limited number of miscellaneous services.</p>
s15(1)(l) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).	In making the determination the Tribunal has been mindful of the need to maintain existing levels of service and the potential for increases in some service levels. In Chapter 6 the Tribunal discusses the standards of service.

Section 16 requirements

As Gosford Council does not contribute to Consolidated Revenue there will be no impact.

ATTACHMENT 4 REGULATORY ASSET BASE AND RATE OF RETURN

Financial year ending 30 June	2000	2001	2002	2003
Opening fixed asset value		218.7	229.5	235.9
plus net capital expenditure		7.2	2.6	0.9
less depreciation		(3.0)	(3.1)	(3.2)
less disposals		-	-	-
plus indexation		6.6	6.8	7.0
Closing fixed asset value	218.7	229.5	235.9	240.6
Working capital (closing balance)	8.0	5.8	5.6	5.7
Total regulatory asset base	227	235	241	246
Operating expenditure	21.8	21.6	22.3	22.4
Depreciation	2.9	3.0	3.1	3.2
Expected return on assets	14.9	13.4	13.1	13.5
Expected revenue	39.7	37.9	38.5	39.1
Return on assets (% , real pre-tax)	6.6%	5.8%	5.5%	5.5%

Note: Columns may not add due to rounding.

ATTACHMENT 5 WACC PARAMETERS

Parameter	Value
Nominal risk-free rate	6.41%
Real risk-free rate	3.52%
CPI	2.8%
Market risk premium	5.0% to 6.0%
Debt margin	0.8% to 1.0%
Debt to total assets	60%
Dividend imputation factor (Gamma)	0.5 to 0.3
Tax rate	30%
Asset Beta	0.30 to 0.45
Equity Beta	0.65 to 1.02
Cost of equity (nominal post tax)	9.7% to 12.5%
Cost of debt (nominal pre tax)	7.2% to 7.4%
WACC (nominal post tax)	6.2% to 7.6%
WACC (real pre tax)⁵⁸	4.8% to 7.8%

⁵⁸ The lower bound of 4.8 per cent is estimated by applying the so called 'reverse transformation' approach to the lower range of the parameters listed. The upper bound is estimated by applying the 'market' or 'vanilla' transformation to the upper range of the parameters listed.

ATTACHMENT 6 FINANCIAL INFORMATION

	Historical values				Budget Year 2000	Regulatory Period		
	1996	1997	1998	1999		2001	2002	2003
Ability to service debt								
1b. Funds flow interest coverage	-	3.89	3.63	4.72	10.34	28.63	(135.70)	(10.56)
NSW Treasury (1994)		AA	AA	AAA	AAA	AAA	>AAA	>AAA
S&P – US Utilities (1995)		AA	AA	AA	AA	AA	>AAA	>AAA
2b. Pre-tax interest coverage	1.97	2.27	2.38	2.70	3.67	7.80	(47.39)	(3.83)
S&P – US Utilities (1995)	BBB	A	A	A	AA	AA	>AAA	>AAA
Ability to repay debt								
3. Funds flow net debt payback	-	3.3	3.4	2.1	1.0	0.2	(0.7)	(1.6)
NSW Treasury (1994)		AAA	AAA	AAA	AAA	AAA	>AAA	>AAA
4. Funds from operations/total debt	-	0.19	0.16	0.22	0.32	0.584	0.84	56.60
S&P – US Utilities (1995)		AA	A	AA	AA	AA	AA	AA
5b. Total debt/total capital (regulatory value)	49%	42%	36%	30%	22%	15%	9%	0%
S&P – US Utilities (1995)	AA	AA	AA	AA	AA	AA	AA	AA
Reliance on debt								
6. Internal financing ratio	-	909	5,478	1,122	935	261	658	2,168
NSW Treasury (1994)		AAA	AAA	AAA	AAA	AAA	AAA	AAA
S&P – US Utilities (1995)		AA	AA	AA	AA	AA	AA	AA
Funds flow adequacy								
7. Funds from operations/(dividends + net capex)	-	9.09	54.78	11.22	9.35	2.61	6.58	21.68
Net debt								
8. Total debt less cash, ST and LT investments	76	59	44	30	16	3	(11)	(30)
Net debt as % expected revenue	181%	147%	110%	75%	40%	8%	-30%	-76%
8a. EBIT / total revenue	40%	39%	37%	33%	26%	25%	23%	24%
9a. EBITDA / total revenue	64%	60%	58%	55%	52%	51%	48%	49%
11. EBIT (\$m)	19	17	17	15	12	11	10	10
12. EBITDA (\$m)	31	26	27	25	24	23	21	21
13. Profit after tax	11	11	12	11	10	11	10	12

FINANCIAL INDICATORS	GENERAL DESCRIPTION	DEFINITION/COMPONENTS
Funds Flow Interest Coverage	How many times funds from operations covers interest payments	$(\text{Pre-tax funds flow} + \text{net interest}) / \text{net interest}$
Pre-tax Interest Coverage	How many times profit before tax covers interest payments	$(\text{EBIT} - \text{capital contributions}) / \text{net interest}$
Funds Flow Net Debt Pay Back	How many years will it take to payback total debt	Net debt / funds from operations
Funds from operations / total debt	Proportion of funds from operations to total debt	Funds from operations / total debt
Total Debt / Total Capital	Proportion of debt to equity capital	Total Debt / (Total Debt + Total Equity)
Internal Financing Ratio	Funds retained as a proportion of capital expenditure	$(\text{Net cash flow} / \text{net capital expenditure}) \times 100$
Net Debt or (Cash holdings)	The amount of net debt or cash holdings	See definitions below

Where:

Capital contributions = cash and non-cash contributions of/towards physical assets

Capital expenditure = purchase of property, plant and equipment

Cash holdings = cash + short term investments

EBIT = earnings before (net) interest, tax abnormal items, but after capital contributions

Funds from operations = Profit after tax + depreciation and amortisation – capital contributions + movements in provisions + cost of assets sold + change in working capital – non-cash abnormal items

Net cash flow = funds from operations – dividends paid in year

Net interest = interest payable – net interest

Net debt = (total debt – cash – LT&ST investments)

Pre-tax funds flow = funds from operations + tax expense

Total debt = all interest bearing debt

Total equity = retained profits + reserves + share capital

ATTACHMENT 7 WATER SERVICE STANDARDS

Comparison of water agencies service standards

Standard	Agency	Standards of Service (1999)
Water reliability	Sydney Water Corporation	Not published
	Hunter Water Corporation	Imposition of water restrictions at no less than 10 yearly intervals
	Gosford City Council ¹	Storage capacity sufficient to meet demand without restriction 95% of the time
	Wyong Shire Council ¹	Meet unrestricted demand requirements unless operating under restricted conditions
Water continuity	Sydney Water Corporation	95% of customers will not experience a discontinuity >6hrs (each event)
	Hunter Water Corporation	92% of customers will not experience a discontinuity > 5hrs (cumulative for year)
	Gosford City Council ¹	6 hrs per property. per annum max (unprogrammed) 12 hrs per property per annum max (programmed)
	Wyong Shire Council ¹	Unprogrammed supply disruption per year not to exceed 4 hours per individual property 90% of the time
Supply adequacy	Sydney Water Corporation	98% of customers to receive pressure > 15m at main tap (excluding low pressure areas)
	Hunter Water Corporation	95% of customers to receive pressure > 20m at the service meter (throughout whole of geographic area)
	Gosford City Council ¹	Minimum of 12m head
	Wyong Shire Council ¹	Maintain 15m pressure in distribution mains
Water Quality	Sydney Water Corporation	Meet health related aspects of 1987 (1996 proposed in new licence) NHMRC Drinking Water Guidelines
	Hunter Water Corporation	Meet 1994 draft NHMRC Australian Drinking Water Guidelines in full
	Gosford City Council ¹	Meet 1991 NHMRC Health Guidelines 95% of the time
	Wyong Shire Council ¹	Meet 1996 NHMRC health and quality Drinking Water Guidelines
Sewer Surcharge	Sydney Water Corporation	96% of customers will not experience a surcharge on their property
	Hunter Water Corporation	96% of customers will not experience a surcharge on their property
	Gosford City Council ¹	800 recorded sewage discharges per year
	Wyong Shire Council ¹	Operate sewerage system in a manner consistent with EPA requirements.

¹ Internally set standards

Source: Halcrow Review p 20.



INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES

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

- Reference No:** 99/177
- Determination:** No 4, 2000
- Agency:** Gosford City Council
- Services:** The following services are declared to be government monopoly services:
- (a) water supply services,
 - (b) sewerage services,
 - (c) stormwater drainage services (being, in the case of a Council, stormwater drainage services supplied by the Council in its capacity as a Water Supply Authority),
 - (d) trade waste services,
 - (e) services supplied in connection with the provision or upgrading of water supply and sewerage facilities for new developments and, if required, drainage facilities for such developments,
 - (f) ancillary and miscellaneous customer services for which no alternative supply exists and which relate to the supply of services of a kind referred to in paragraphs (a) to (e),
 - (g) other water supply, sewerage and drainage services for which no alternative supply exists.

The Government monopoly services were declared by the Independent Pricing and Regulatory Tribunal (Water, Sewerage and Drainage Services) Order 1997, made on 5 February 1997 and published in Gazette No. 18 dated 14 February 1997 at page 558.

The maximum prices listed or calculated under sections 1 to 9 of this Determination are to apply from 1 July 2000 to 30 June 2003. The maximum prices for developer charges listed or calculated under section 10 are to apply from 1 July 2000 until replaced.

1 DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Determination:

community title property means community property as defined in the *Community Land Development Act, 1989*.

CPI means the consumer price index, All Groups index number for the weighted average of eight capital cities as published by the Australian Bureau of Statistics, or if the Australian Bureau of statistics does not or ceases to publish the index, then CPI will mean an index determined by the Tribunal that is its best estimate of the index.

CPI^{-GST} means the CPI exclusive of the net impact of:

- a) the GST; and
- b) changes to any other Commonwealth, State or Territory taxes or charges, consequent upon the introduction of the GST,

as calculated and published by the Australian Bureau of Statistics from time to time. If the Australian Bureau of Statistics does not, or ceases to, calculate and publish it then CPI^{-GST} will mean:

- (i) an index published by Commonwealth Treasury which is its best estimate of CPI^{-GST}; or
- (ii) if Commonwealth Treasury does not, or ceases to, publish an index then an index published by the Reserve Bank of Australia which is its best estimate of CPI^{-GST}; or
- (iii) if the Reserve Bank of Australia does not, or ceases to, publish an index, then at the Tribunal's discretion, either:
 - (A) an index published by a person appointed by the Tribunal which is that person's best estimate of CPI^{-GST}; or
 - (B) an index published by the Tribunal that is its best estimate of the CPI^{-GST}.

CPI₁^{-GST} means the number derived from the application of the following formula:

$$CPI_1^{-GST} = \left(\frac{CPI_{Jun\ 2000} + CPI_{Sep\ 2000}^{-GST} + CPI_{Dec\ 2000}^{-GST} + CPI_{Mar\ 2001}^{-GST}}{CPI_{Jun\ 1999} + CPI_{Sep\ 1999} + CPI_{Dec\ 1999} + CPI_{Mar\ 2000}} - 1 \right) \times 100\%$$

where:

- CPI is as defined and where the corresponding subtext (for example, Jun2000) means the CPI for the quarter of the year indicated (in the example, the June quarter for the year 2000);
- CPI^{-GST} is as defined and where the corresponding subtext (for example, Dec2000) means the CPI^{-GST} for the quarter of the year indicated (in the example, the December quarter for the year 2000).

CPI₂^{-GST} means the number derived from the application of the following formula:

$$CPI_2^{-GST} = \left(\frac{CPI_{Jun2001}^{-GST} + CPI_{Sep2001}^{-GST} + CPI_{Dec2001}^{-GST} + CPI_{Mar2002}^{-GST}}{CPI_{Jun2000}^{-GST} + CPI_{Sep2000}^{-GST} + CPI_{Dec2000}^{-GST} + CPI_{Mar2001}^{-GST}} - 1 \right) \times 100\%$$

where:

- **CPI** is as defined and where the corresponding subtext (for example _{Jun2000}) means the CPI for the quarter of the year indicated (in the example the June quarter for the year 2000);
- **CPI^{-GST}** is as defined and where the corresponding subtext (for example, _{Jun2001}) means the CPI for the quarter of the year indicated (in the example, the June quarter for the year 2001).

discharge factor means the percentage of metered water, as assessed by Gosford City Council, which is discharged to sewer.

exempt properties are those properties exempt from service charges under Schedule 6 of the *Water Supply Authorities Act, 1987*.

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

IPART Act means the *Independent Pricing and Regulatory Tribunal Act, 1992*.

non-residential property means a property that is not used for a residential purpose and may include commercial and industrial properties.

recoverable works means those works undertaken by Gosford City Council at the request of individuals or organisations, which are not for the purpose of establishing a new connection to the system. An example is the relocation of assets on a customer's property at the request of the customer.

residential property means a property that is used for a residential purpose and includes:

- a) single residential dwellings
- b) a residential dwelling plus one flat which is not strata title property
- c) residential units which are strata title property.

strata title property means property that is registered under the *Strata Schemes (Freehold Development) Act, 1973*.

Trade Waste Policy means the Gosford City Council's policy *Sewerage – Trade Waste* (no. S3.01) as amended from time to time.

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

vacant land means those properties with no capital improvements and to which there is no service connection but where services are reasonably available for connection.

Year means a period commencing on 1 July and ending on 30 June in the ensuing calendar year.

1.2 Interpretation

- 1.2.1 If there is any inconsistency between this Determination of the Tribunal a previous determination of the Tribunal, this Determination will prevail to the extent of the inconsistency.
- 1.2.2 In the interpretation of this Determination a construction that would promote the purpose or object underlying the IPART Act (whether or not that purpose or object is expressly stated in the IPART Act) is to be preferred to a construction that would not promote that purpose or object.

2 WATER SUPPLY SERVICES

Every residential and non-residential property must pay a water service charge and a water usage charge calculated under this Determination.

2.1 Water service charge

The maximum water service charge for the year 2000/01 for residential, non-residential, and exempt properties is the water service charge corresponding to the relevant service connection in Table 1 below. The maximum water service charge for the year 2000/01 for fire services, not metered for water consumption, is the fire service charge corresponding to the relevant service connection in Table 1. The maximum water service charge for the year 2000/01 for vacant land is \$70.

Table 1 Water and fire service charges in 2000/01

Service connection (nominal diameter)	Water Service charge \$	Fire service charge \$
20mm	70	35
25mm	109	55
40mm	280	140
50mm	438	219
80mm	1120	560
100mm	1750	875
150mm	3938	1969
200mm	7000	3500
>200mm	(service size) ² x \$70/400	Half service charge

In the years 2001/02 and 2002/03, the maximum water service, fire service and vacant land charges are to be calculated in accordance with Table 2.

Table 2 Water service, fire service and vacant land charges in 2001/02 and 2002/03

Charge	2000/01	2001/02	2002/03
Water service (per year)	Table 1 charge	Table 1 charge x (1+CPI ₁ ^{-GST} -3%)	Table 1 charge x (1+CPI ₁ ^{-GST} -3%) x (1+ CPI ₂ ^{-GST} -3%)
Fire service (per year)	Table 1 charge	Table 1 charge x (1+CPI ₁ ^{-GST} -3%)	Table 1 charge x (1+CPI ₁ ^{-GST} -3%) x (1+ CPI ₂ ^{-GST} -3%)
Vacant land (per year)	\$70	\$70	\$70

Strata title properties

The maximum water service charge for each unit within a strata title property must not exceed \$70 in the year 2000/01. For the years 2001/02 and 2002/03 this maximum charge is to be calculated each year in accordance with Table 2 above.

Community title properties

The water service charge for a lot in a community title plan is the relevant water service charge in Table 1 apportioned between the lots in the community title plan in accordance with that plan's schedule of unit entitlements. For the years 2001/02 and 2002/03 this charge is to be calculated each year in accordance with the water service charge in Table 2 above.

2.2 Water usage charge

In the case of residential property and non-residential property the maximum water usage charge for the year 2000/01 must not exceed \$0.65 per kilolitre of water consumed. In the years 2001/02 and 2002/03 the maximum water usage charge is to be calculated each year in accordance with Table 3.

Table 3 Water usage charges in 2000/01 to 2002/03

Charge	2000/01	2001/02	2002/03
Water usage (per kL)	\$0.65	\$0.675 x (1+CPI ₁ ^{-GST} -3%)	\$0.70 x (1+CPI ₁ ^{-GST} -3%) x (1+ CPI ₂ ^{-GST} -3%)

3 SEWERAGE SERVICES**3.1 Sewer service charge****3.1.1 Residential**

The sewer service charge for residential property must not exceed \$341 in the year 2000/01. In the years 2001/02 and 2002/03 the maximum charge is to be calculated each year in accordance with Table 4.

Table 4 Residential sewer service charge in 2000/01 to 2002/03

Charge	2000/01	2001/02	2002/03
Sewer service charge (per year)	\$341	$\$341 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%)$	$\$341 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%) \times (1 + \text{CPI}_2^{-\text{GST}} - 3\%)$

3.1.2 Non-residential

The maximum sewer service charges for non-residential properties for the year 2000/01 is the charge corresponding to the relevant service connection in Table 5. The maximum sewer service charge for the year 2000/01 for vacant land is \$254.

Table 5 Non-residential sewer service charges in 2000/01

Service connection (nominal diameter)	Charge \$
20mm	254
25mm	397
40mm	1,016
50mm	1,588
80mm	4,064
100mm	6,350
150mm	14,288
200mm	25,400
>200mm	$(\text{service size})^2 \times \$254/400$

In the years 2001/02 and 2002/03, the maximum sewer service charges for non-residential properties and for vacant land are to be calculated in accordance with Table 6.

Table 6 Non-residential sewer service charges in 2001/02 and 2002/03

Charge	2000/01	2001/02	2002/03
Sewer service (per year)	Charge as per Table 5	Table 5 charge x $(1 + \text{CPI}_1^{-\text{GST}} - 3\%)$	Table 5 charge x $(1 + \text{CPI}_1^{-\text{GST}} - 3\%) \times (1 + \text{CPI}_2^{-\text{GST}} - 3\%)$
Vacant land (per year)	\$254	\$254	\$254

Non-strata titled units and retirement villages

A retirement village or a unit complex (whether such complex is a residential or non-residential property) which is not strata title property is to be rated as a single non-residential property.

3.2 Sewer usage charge

3.2.1 Residential

A sewer usage charge does not apply to residential properties.

3.2.2 Non-residential

A sewer usage charge applies to non-residential properties. The charge is calculated on the estimated volume of water discharged into the sewerage system. Metered water usage is multiplied by a discharge factor (based on the type of premises) in order to estimate the volume of water discharged. Gosford City Council must specify in the Trade Waste Policy a discharge factor for each type of premises.

The maximum sewer usage charges for non-residential properties are set out in Table 7.

Table 7 Non-residential Sewer usage charges in 2000/02 and 2002/03

Sewer usage charge	2000/01	2001/02	2002/03
Non-residential (per kL)	\$0.70	$\$0.70 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%)$	$\$0.70 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%) \times (1 + \text{CPI}_2^{-\text{GST}} - 3\%)$

4 TRADE WASTE SERVICES

Non-residential customers classified as trade waste dischargers pay a trade waste charge in addition to sewer charges. Charges for trade waste services depend upon the quality of the discharge. If the quality of the discharge fails to comply with the trade waste quality standard in the Trade Waste Policy, the charges for 'unacceptable quality' in Table 8 apply. Alternatively, if the quality meets the criteria then the charges for 'acceptable quality' apply. Maximum trade waste charges for the years 2000/01 to 2002/03 inclusive must not exceed those set out in Table 8.

Table 8 Trade waste charges in 2000/01 to 2002/03

Trade waste discharge	2000/01	2001/02	2002/03
Acceptable quality			
Excess volume (per kl)	\$0.20	$\$0.20 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%)$	$\$0.20 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%) \times (1 + \text{CPI}_2^{-\text{GST}} - 3\%)$
Unacceptable quality			
Volume (per kl)	\$1.30	$\$1.30 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%)$	$\$1.30 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%) \times (1 + \text{CPI}_2^{-\text{GST}} - 3\%)$
Biological oxygen demand (per 1,000mg/litre)	\$1.30	$\$1.30 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%)$	$\$1.30 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%) \times (1 + \text{CPI}_2^{-\text{GST}} - 3\%)$
Non-filterable residue (per 1,000mg/litre)	\$1.30	$\$1.30 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%)$	$\$1.30 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%) \times (1 + \text{CPI}_2^{-\text{GST}} - 3\%)$
Re-inspection fee	\$74	$\$74 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%)$	$\$74 \times (1 + \text{CPI}_1^{-\text{GST}} - 3\%) \times (1 + \text{CPI}_2^{-\text{GST}} - 3\%)$

5 STORMWATER DRAINAGE SERVICES

The maximum charge for the Stormwater Drainage Levy for the year 2000/01 is \$40. For the years 2001/02 and 2002/03, the Drainage Levy is to be calculated as set out in Table 9.

Table 9 Drainage levy in 2000/01 and 2002/03

Charge	2000/01	2001/02	2002/03
Drainage Levy(per year)	\$40.00	$\$40.00 \times (1 + \text{CPI}_1^{-\text{GST}})$	$\$40.00 \times (1 + \text{CPI}_1^{-\text{GST}}) \times (1 + \text{CPI}_2^{-\text{GST}})$

6 RECOVERABLE WORKS

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

7 NEW OR ADDITIONAL CHARGES

Gosford City Council must not levy any new or additional charges for water, sewerage and drainage services other than in accordance with this Determination, or with the approval of the Tribunal in future determinations.

8 ANCILLARY AND MISCELLANEOUS CUSTOMER SERVICES

For the years 2000/01 to 2002/03 inclusive the maximum charges for miscellaneous services are those set out in Table 10.

Table 10 Miscellaneous charges in 2000/01 to 2002/03

Nature of Service	Fee (\$)
Provision of A3 & A4 Size Water and Sewer Location Plans (per property)	15.00
Cancellation fee – water and sewerage applications	50.00
Building Over Sewer Main Letter	Nil
Sale of building over sewer and water guidelines	10.00
Section 26 Certificate: Dual Occupancies	76.00
Section 26 Certificate: Commercial buildings, factories and Torrens subdivisions of dual occupancies	113.00
Section 26 Certificate: Boundary realignments without mains extensions	185.00
Section 26 Certificate: Subdivisions and developments involving mains extensions	550.00
Section 26 Certificate: developments without requirements	45.00
Inspection of concrete encasement and additional junction cut-ins	
Two site inspections required as a minimum requirement	131.00
Inspections of casements greater than 10m	\$131+\$10 per metre over 10 metres of casement
Additional inspection due to non-compliance	45.00
Sale of specification for construction of water and sewerage works by private contractors	\$60 per volume
Sale of Sewer Plan Books:	
A3 sheets in cardboard folder	360.00
A3 sheets in plastic pockets	465.00
Annual charge for monthly updates	247.00
Issue of Section 41 Certificate	15.00
Special water meter readings	45.00
Backflow prevention application and registration	50.00
Backflow prevention registration renewal	20.00
Private works inspection:	
Sewer	\$6.00 /m with min of \$131 (being fee for super-vision of junction cut-in)

Nature of Service	Fee (\$)
Water	\$4.50 per meter with minimum of \$131 (being fee for super-vision of junction cut-in)
Re-inspection fee	100.00
Drainage diagram	15.00
Private Developers Plan Resubmission	\$50 for 1st hr then \$30 / hr after
Approval of developers sewer pump station rising main design	200.00
Approval of private internal residential sewer pump station rising main design	75.00
Provision of water pressure information for fire flow demands	96.00
Meter testing	\$86.00 plus actual courier and testing fees
Bill search fee	8.00
Approval of extension sewer/water mains to properties outside service areas	100.00
Location of water and sewer mains	Actual cost with minimum of \$165.00
Annual Metered Standpipe Permit: registration fee	As per water Tariff
Annual Metered Standpipe Permit: deposit	596.00
Annual Metered Standpipe Permit: water usage charge	As per water Tariff
Water service connection: single dwelling residential	298.00
Water service connection: multi dwelling/commercial	Quoted actual costs
Sewer connection fees: new sewer	150.00
Sewer connection fees: additional WC	54.00
Sewer connection fees: alterations	100.00
Sewer connection fees: units/villas (1 WC each per flat or villa)	115.00
Sewer connection fees: caravan connection fee	65.00
Sewer connection fees: sewer re-inspection fee	77.00
Meter reconnection fee	30.00

9 CONSISTENCY OF DETERMINATION WITH A NEW TAX SYSTEM

The Tribunal's Determination of charges above has been made on the basis that those charges are free of the impact of the GST.

If any charge in this Determination is or becomes subject to the GST, it will be amended so that the maximum charge that may be levied is the charge determined in accordance with the formula:

$$\text{Charge}^{+GST} = \text{Charge} \times (1 + Y)$$

Where:

Charge^{+GST} means the charge calculated under this section;

Charge means the relevant charge in this determination;

Y means the GST as defined, expressed as a percentage and calculated in the relevant year.

10 DEVELOPER CHARGES

The maximum prices for developer charges will be calculated by applying the methodology applicable at 30 June 2000.