INDEPENDENT PRICING AND REGULATORY TRIBUNAL

PUBLIC HEARINGS INTO METROPOLITAN WATER PRICING

Tribunal Members

Dr Tom Parry - Chairman
Mr James Cox

Held at the Metro Inn
512 Pacific Highway, Gosford, NSW, 2250

On Tuesday, 10 December 2002, at 1030am

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DR PARRY: We might get underway, even though it is a couple of minutes early. For the record, it is 10 December and the tribunal is holding its public hearings into the pricing determinations for Gosford Council and Wyong Council.

The tribunal has released its issues paper with respect to the councils as well as to Sydney Water, Hunter Water and Sydney Catchment. We have received submissions from the councils, which are on the public record.

Today's hearings give the tribunal an opportunity to just explore some of the main issues that the councils have raised in their submissions.

GOSFORD CITY COUNCIL

DR PARRY: Without taking any further time, I might ask you to just formally identify yourselves for the record and proceed with your presentation, and we will have some questions at the end just to cover some of the issues.

MR WILSON: Peter Wilson, General Manager of Gosford City Council.

MR WILLIAMS: Rod Williams, Director of Water and Sewerage.

MR DAVIS: John Davis, Gosford Council.

DR PARRY: Thank you.

MR WILSON: Thanks very much to the tribunal for giving us the opportunity to give this presentation today. Obviously what we will be doing is quickly reflecting on the submission which the tribunal has already been provided. We will go through that relatively quickly given the short time frame.

In the time frame that we have available, I would just like to go through and briefly give a description of Gosford City Council, our directions, quickly look at the matters from the previous determinations, issues raised by IPART, the Halcrow Water Agency Review, issues facing council and our proposed maximum charges for the period 2003 to 2005.

Some background information: I am sure everybody knows that Gosford City covers an area of about 1028 square kilometres and has a population now estimated at over 160,000. Anticipated growth is to 177,800 by the year 2021, per New South Wales planning, although we believe it will be greater than that. The current number of water assessments is 63,386 and sewerage assessments 61,467.

Now looking at the joint water supply scheme which shows both Gosford and Wyong, obviously Gosford and Wyong operate a headworks scheme and as well as that the councils individually operate their own water distribution schemes. The major components in the water scheme are Mangrove Creek Dam with a tunnel across to Wyong River. We have the Mangrove Dam weir, from which to treat we pump up to Mardi Dam to our treatment plant at Somersby whereby we then distribute it through numbers of reservoirs throughout the Gosford area.

As I have already indicated, there are linkages then from Mangrove to Wyong River and hence down to the Mardi treatment plant. Water is able to be brought back into Gosford via a coastal connection which doesn't operate continuously, but certainly operates for approximately six months of the year.

With the sewerage schemes, both Gosford and Wyong councils operate these schemes individually. The major components of the Gosford scheme are the Woy Woy treatment works, the Kincumber treatment works and we also have an outfall which goes out through a location known as First Point.

Gosford Council is a local government authority as well as a water authority, hence its processes are more consultative I believe and certainly more transparent than a single water authority entity. I want to go through a number of the processes that we go through when we consult with the community in determining the levels of service that we are to provide.

We developed what is known as a city management plan which is a requirement under the Local Government Act. The city management plan is actually a suite of documents which includes our five-year strategic plan, our annual state of environment report, our three-year capital works program, the annual budget and also the annual revenue policy.

Just in relation to the city management plan, the process we go through is quite extensive. We actually start to workshop that document in July each year. Following workshops with the community we then follow that up with workshops with councillors and staff and a draft suite of documents is prepared. They then gone out on exhibition, following council's authorisation to that.

Following exhibition, or during exhibition, we have public meetings and it is finally decided by council in June as to the final make-up of the suite of documents being the city management plan.

In the city management plan we detail what services we are going to be providing as a local government authority. One of those is obviously water supply and sewerage. Each of the activities we are involved in includes objectives and in relation to water and sewerage the objectives included in the city management plan are to meet the community's needs by providing a high quality water supply complying with recognised drinking water standards through the planning and development of water supply schemes and the operation and maintenance of existing installations.

The objective is to transport and treat sewerage for disposal by developing works and pricing and maintaining existing installations to provide services fit for customers' purposes and in an environmental sustainable manner.

As both a local government authority and a water authority, we operate in a very complex and highly regulated environment. This next overhead shows that obviously we are a water supply authority operating under the Water Management Act 2000. We are also a local government authority operating under the Local Government Act 1993. There is a Gosford agreement between Gosford and Wyong councils with regards to our joint headworks operations.

Gosford is also a member of the Water Services Association of Australia. We go through public accountability through a number of processes, including obviously Gosford City Council itself and the process that I have already described through the Independent Pricing and Regulatory Tribunal, through DLWC, through the Department of Local Government, the Department of Health, through the EPA and also through Treasury, so there is no doubt that we are certainly well scrutinised in our operations - and I would suggest overly so. We also under the National Competition Policy operate as a category one business.

In relation to matters from previous determinations, two of these, certainly the largest one was the pay for water use, moving to a two-part tariff to meet COAG and National Competition requirements, and Gosford Council has done that during the period since the last determination.

To ensure also that we met or certai nly satisfied the needs of perhaps our lower income areas, especially in relation to our pensioners, the council was adamant that we would continue to give pensioners subsidies so that the move to the new water charge, the two-part tariff, would not impact on our pensioners and that has been the case with

pensioners' subsidies relating to water usage or water consumption.

Issues for consideration in our submission were raised by IPART through the June 2002 issues paper and also through discussions with IPART. The issues I want to reflect upon are the provision of services for willingness to pay and customer perceptions, service standards, level of service and the regulatory framework in which they are determined, dividend payments to council, time period of determination and demand management.

In relation to customer perception and willingness to pay, council undertakes an annual survey for all its services as a local government authority. This is one in a number of ways in which council obtains feedback and comment regarding its operations, obviously including water supply and sewerage.

Annually council undertakes a survey of constituents through the Hunter Valley Research Foundation. The latest of these reviews was in September 2002 and we have just recently received that document. The survey involves the survey of some 500 residents. There has been some comment as to the accuracy of that survey.

Without going into too much detail about the mathematical analysis of it, the accuracy is actually to a plus or minus 4.5 per cent as advised to us by the Hunter Valley Research Foundation. Basically if you get a response then it should be equivalent to a response wi thin plus or minus 4.5 per cent if you actually surveyed the whole of the community.

We believe it is an accurate way to go about undertaking the survey and it looks at a number of issues and, as I have mentioned, water supply and sewerage is certainly one of those. When we say that we get 500 completed surveys, we actually get a 78 per cent response rate, so there is actually 143 that decline, so we are going out there looking at 650-odd to start with. It is 500 completed surveys that we are talking about.

This is just a part of the survey and it relates to the importance and the satisfaction rating of the services that council provides. It is a score out of 5, basically from low importance to high importance, low satisfaction to high satisfaction, obviously 1 being low and 5 being high.

Looking at the results on water quality and reliability of water and sewerage services, the results in 2002 are 4.8, 4.8 and 4.7. 4.8 is actually the highest score we get as a local government that we provide for any service. 4.7 is the second highest. So far as importance to our community, water supply and sewerage are the most important.

We also then ask whether our customers are satisfied with the quality of water, reliability of water and our sewerage services. You will see in 2002 the rating was 4.4, 4 and 4.1 for sewerage services. There has actually been a decrease over the last four years, although only marginally, if you take into consideration that the 4.1 is still the second highest satisfaction rating we get for any services that we provide, and 4 is the fourth highest.

To give an example, garbage actually is the highest. It gets a ranking of 4.2 as far as satisfaction. Roads are the lowest, with a rating of 2.6, which probably does not come as a surprise. We certainly believe it is a very effective way to get an overall impression of what our community believes to be the importance of water quality, supply and sewerage as to how we are as an organisation providing those services.

Just now looking at service standards, obviously the service standards can be determined by both regulatory requirements and also via the community through our council as to what levels of service we will be providing as a water supply authority. With regards to water, we obviously operate under the NH&MRC 1996 guidelines and we have done that for sometime.

With regards to sewerage treatment, an issue which I have raised before which I believe also was raised again in discussions with IPART, it relates to our Kincumber treatment plant, that plant when built, was built to a standard which ensured that the service level or the quality of the effluent that was coming out of that treatment plant was certainly much higher than was required at that particular point in time.

This is a good example of the community consultation process that local government is able to undertake and the way that we can react to those expectations and needs. That facility was built to a higher standard. The existing infrastructure allows that higher standard to be achieved and it certainly would not be efficient or effective to operate it at a lesser level to reduce that high standard.

Obviously having done that, as far as the other

authorities that are controlling us are concerned such as the EPA, there are now load limits set around reasonable performance, so there is a strong need for us to continue to deliver that effluent at that high level.

Obviously other service standards or levels of service are controlled by the other regulatory authorities and within the framework that, as I mentioned, is already controlled by the EPA, the NH&MRC guidelines, occupational health and safety requirements that we have, we are a self insurer so it is extremely important to ensure that we continue to be licensed to be a self insurer, which generates some significant savings, and the POEO Act as well.

On levels of service, just again reflecting on our city management plan and the processes that we go through, we workshop those documents, we have exhibitions, public meetings, and finally those levels of service are authorised by our elected representatives who obviously are extremely close to the community and who will be getting even closer with the upcoming elections in September next year.

So there is certainly a strong drive to make sure that what we do as an organisation is to provide those services that are required and needed by the community at those levels that are desired. Within the city management plan, that is within our five-year strategic plan and our annual budget, we build into those documents performance criteria and they are reported to the council on a quarterly basis as well as annually in our final reports.

If I can touch on dividend payments to council, I would certainly like to commence by saying that council supports the payment of a dividend to the owners of the assets of our water supply and sewerage systems. Payment of dividends has been raised on a number of occasions in the reports on water and certainly it appears to me that there is a willingness or a desire by the tribunal to enable that or allow that to occur.

Given the framework in which we operate, given that Hunter and Sydney are already paying dividends, it would be an appropriate process to follow. At the recent Local Government Association conference the Minister did announce that changes would be put in place to enable dividends to be paid to local government authorities from water supply to general fund. I did question whether or not that applied to authorities that operated under the Water Management Act. I haven't got confirmation of that at this stage. Certainly we would be pushing that that was the case to enable that to occur and we would certainly be calling on the tribunal to support that as well.

Council's submission I must say at this stage does not include a payment of a dividend. However, as I said, I certainly believe that it would be an appropriate process to follow.

With regards to commercial return on assets, I guess that also then reflects on the RAB or the regulatory asset base. Council also believes that our pricing charges and structure should be such that a suitable and appropriate rate of return on our asset base is actually achieved, which certainly I don't believe at this stage is the case.

The determination of what is the appropriate rate of return that should be achieved I believe certainly needs further discussion with the tribunal and also in relation to the regulatory asset base the percentage that should be applied.

Using the RAB I don't have major problems with, and in relation to the commercial rate of return as long as it is appropriate and it actually does achieve that required rate of return obviously to ensure that we are sending out the right signals as far as the cost of water to the community, so we would certainly like to have further discussions with the tribunal on determining the regulatory asset base, what it actually is, how we are going to continue to determine that in future years and also what the rate of return should be.

Just also on the regulatory asset base as far as rate of return, I am sure we can deal with that, I am not so sure that we are actually using the appropriate asset base in determining what our long-term needs are as far as replacement of assets but I take on board the tribunal's comments. Once again we would certainly like to discuss that further.

With regard to the time period of determination, we agree with the proposal for a two-year price path, especially as it aligns with the Sydney Catchment Authority. In our submission council supports the two-year price path for a number of reasons - I was going to say the unknown effects of drought but perhaps this is an aberration, I am not the eternal optimist - the unknown effects of the water sharing plans which actually could have a significant impact on us and our pricing requirements to determine or allow for the assets that we may have to provide to meet those requirements.

We also have some other large expenditures, which have been outlined in our submission, which

relate to biosolids removal and the possible significant increase that could occur and a major review of our asset management plans which we are currently engaged in. As I have also mentioned, there is obviously the issue of dividends and rates of return given what may come out of legislative changes in the near future.

Demand management is certainly an issue that not only Gosford Council but also Wyong through our joint water authority is looking at. Gosford Council together with Wyong Council has now agreed to embark on a water tank rebate scheme not dissimilar to Sydney's, and we believe that will be in place early in the new year. That is for existing properties.

Council has also agreed to review its development control plan to look at the issue of broader rainwater tanks being made compulsory for new developments and we will be going through that process in January, February and March. The process for development control plans is once again extremely consultative. The council has to agree to prepare a draft plan, it then has to go through an exhibition process and council then has public meetings through that process to ascertain what the support is for that process.

I might say that at our particular stage in life as far as development is concerned, the impact of compulsory water tanks is certainly not as great as it would be in Wyong.

The two councils through the joint authority have also embarked upon a process of review of our supply systems, our asset base, which also is obviously looking at demand management to determine what our levels that are required in future years may be. Public Works has been engaged to undertake that review. A draft overview has been presented to the joint authority and we are expecting a report back early in the new year with regards to some more of those outcomes through the review process.

I think it is clear through that process at this stage that demand management is very high on that priority for determining what future demands may be, especially in the areas of education and those other areas that are listed on the overhead which the two councils will obviously be taking very careful note of once the report is finally received. As I said, we look forward to receiving that early in the new year.

The Halcrow Water Agency Review: We are obviously now waiting the final report on that. I won't go into detail on it at this stage until we find out what changes may have been made to the report, but I would say that we didn't agree with that to a large extent. However, we have made our comments and we would like to, once that report is received in its final detail, have further discussions with the tribunal.

Quickly going onto the issues facing council and also the issues that council has been dealing with in recent times: organisational change; environmental issues; drought conditions and demand management; odour control; legislative requirements and biosolids reuse, which I have touched upon but I would just like to go through these quickly.

In regard to organisational change, council has changed its structure. The water supply and sewerage function has now become a separate directorate within our organisation and has a director responsible for water supply and sewerage, Rod Williams, who does report directly to me as far as the operations of water supply and sewerage are concerned.

Regarding environmental issues, there are a number of issues which impacts are unknown at this stage but which may be significant and hence the support for a two-year pricing path. Environmental flows I have already referred to. Capital costs: this relates to system improvements that may be needed as a result of those water sharing plans.

There are also some unknown capital costs at this stage with regards to effluent reuse and we still await to see what may come from that. As far as the report that Public Works is involved in, it is certainly looking at issues such as desalinisation or alternate supplies. Once again we don't know the outcome of that report, or what the long-term forecasts are or what impacts that may have on us having to bring forward capital works programs. We are not aware of that at this stage.

Odour control: the EPA requirements now are that no odours are acceptable. We have been looking at our sewerage operations to see how best we can address that. We are going down the path of additional septicity control through a developed program. This will result in some significant additional expenditures in our sewerage front, $720,000 per annum estimated annual costs and over half a million to actually set up the septicity control program.

Other legislative requirements are obviously an ongoing commitment for OH&S. As that legislation changes, additional requirements come into being. The EPA, through the systems licence and load-based

limits, obviously can impact upon our expenditures. Dam safety is obviously an issue. The NH&MRC guidelines I have also referred to, as I have already the POEO Act.

Just on the demand management side again, the proposed pricing path that we are looking at, the charges continue to reflect what we believe to be an appropriate pricing path for demand management, that is, increasing our usage charge. We are proposing that charge be increased from 65 - sorry, originally the 65 cents but basically from 70 cents in 2002/03, to 80 cents in 2004/05 with the access charge remaining constant, obviously then increasing to 72 per cent of the actual charges that relate to usage for a typical residential development.

The effect of drought on revenue: Once again this is built into our proposed charging pricing path. With water restrictions, assuming a 10 per cent reduction in water restrictions, we could be looking at a decrease in revenue of about $2.4m over the two years. Once again, should water restrictions continue, and obviously that is based on our first level of restrictions where we are endeavouring to achieve a 10 per cent reduction.

Just on the proposed maximum charges and their impacts, as I have said the water usage charge going from 70 cents to 80 cents and the water service charge remaining at 70, the residential service going from $34 to $74 and the non-residential sewerage service charge from $254 to $280, the non-residential sewerage usage charge from 70 cents to 74 cents a kilolitre which reflects the additional, as I have outlined, costs that will be imposed upon our organisation and the impacts of reductions in usage.

Looking at the impact of that on the non-residential customer, total charges will then be going from $1628 to $1774, and that is for a non-residential property with a 40mm using 250 kilolitres per annum and also building in a 90 per cent discharge factor.

On the water pricing impacts for residential properties, if we look at the 200 to 250 kilolitre usage, which is about our average, we can see that the impact of the proposed charges with a 10 per cent reduction in usage is about $4.50 per residential property assessment.

I thank the tribunal for that opportunity and obviously we are available for questions.

DR PARRY: Thanks very much. Just picking up one of the issues that you touched on, which is the potential move to the water sewerage business paying dividends to council, given that there may be some impact potentially of that on customers in terms of increasing bills compared to what they otherwise might be, do you know what your customers and the council's ratepayers attitudes to dividends from water sewerage businesses are? Have you looked at that?

MR WILSON: We have not specifically put that to them other than through our submissions to the tribunal. There have obviously been a number of reports that have gone to council on the issue of dividends, the reasons behind payment of dividend, the issue of generating perhaps some significant surpluses should the rate of return, the commercial rate of return, be embarked upon. Through that public process the community has been made aware but we have not specifically surveyed the community as to whether or not a dividend should be paid.

Certainly our view is that given that our water supply and sewerage customers are basically our general fund customers that if a dividend is paid it would then reflect in other services being provided back to our community, so those funds actually then remain with the community that is actually paying those additional charges which reflect in the dividend.

DR PARRY: It may or may not be related, I don't know - I don't ask the question assuming it is - but we note that there were in fact transfers to council's drainage account from both water and sewerage funds of about $1.5m each. I am not sure that I understand the nature of those transfers. I wonder if you could just explain what those transfers were.

MR WILSON: I don't describe it particularly as transfers. Certainly from council's perspective it is that as a water authority we are responsible for providing drainage services as well as water supply and sewerage services. The transfer of funds perhaps could be better reflected in saying that our general fund operation is actually undertaking the works on behalf of the water authority with regards to drainage works. These are works of a capital nature similar to those works which are funded partially through the payment of the $44 drainage reserve, so our view is that it has actually been undertaken within the water authority but the actual works being undertaken by the general fund and hence the payment to basically the service provider to undertake those works.

DR PARRY: So are those drainage assets council's assets or the water business's?

MR WILSON: At the present time they are council's assets and that is one of the issues that we are currently looking at. The legal opinion is that it should be the water authority's assets or council's.

DR PARRY: Turning more broadly to operating costs and capital costs, it is certainly the case that compared to the 2000 determination looking out three or four years that actual operating costs and capital expenditure have been significantly greater than anticipated possibly by council and certainly by us. Can you tell us what has been driving those greater expenditures?

MR WILSON: Perhaps I could hand over to Rod or to John, who has more detail on that Dave.

MR WILLIAMS: As a general comment, the cost of water and sewerage in the council is already significantly low and I take it from your comment that what you are seeing is that the council hasn't achieved significant reductions?

DR PARRY: In costs.

MR WILLIAMS: It has been pretty well steady, as I understand it.

MR DAVIS: Some of our operating costs, which have been identified as being slightly higher than what was originally predicted, include some of our labour costs due to award increases above CPI and also bonus payments made through enterprise bargain agreements which have identified payments for increased levels of service or activities within council where we have identified that we are operating a better service or a potentially better service.

DR PARRY: What is the outlook for those cost drivers looking ahead the next few years?

MR DAVIS: We would expect there will be some significant savings in the future. We are doing obviously some benchmarking with other authorities on those issues as well which will drive hopefully costs down, and that will obviously depend on adoption of those changes in activity from council.

MR WILLIAMS: I would like to also add that there are some significant pressures to increase costs, namely the ones that were presented in the presentation, like the septicity and the biosolids.

DR PARRY: The standards?

MR WILLIAMS: Yes.

MR DAVIS: Some things that have increased are testing procedures which cost extra, and that is obviously a driver as well.

DR PARRY: Lastly from me, you indicated some of the likely impacts of the proposed increases for residential customers of the usage charge to 80 cents. I note that the impact of $4 is largely driven by the assumed 10 per cent reduction in demand. What is the basis for what might be seen to be an optimistic expected fall in demand of 10 per cent? Is that restriction driven or is there something else explaining that 10 per cent expected reduction?

MR WILSON: It is a combination of both. Certainly through restrictions, but also through education and understanding of the community as to conserving water. At the present time I think it will be reasonable to say that the level one restrictions have resulted in I think a 7 or 8 per cent reduction. I can't say that is purely related to the restrictions but certainly obviously the environment in which we are currently operating.

Councils through the joint authority will be considering in January the possibility of moving to our second stage of water restrictions and certainly if that is the case we would be aiming at more than a 10 per cent reduction during that once we move to those levels. Once again, that has certainly been impacted upon by the climatic conditions as you would be very much aware during any drought period .

DR PARRY: If for whatever reason restrictions are not required and we don't have that 10 per cent reduction, do we still have that usage price increase, do the impacts on residentials start to look a little bit large and a potential concern?

MR WILLIAMS: I want to add a comment that relates to your previous question. One of the outcomes of the study going on is that that the most cost effective counter to an increase in capacity is demand management. We will be looking to keep the levels of consumption at where they are at the moment or even improve them.

DR PARRY: Through?

MR WILLIAMS: Through demand management rather than through restrictions. We are not intending, to my knowledge, to keep the restrictions on longer than necessary.

DR PARRY: So price based; education based?

MR WILSON: Yes, the list of issues I raised, which

certainly have been a major focus of the consultancy report being undertaken at present. It is not just about supply but about the demand side of the equation. We believe a 10 per cent reduction is achievable and certainly the consultant is saying a greater reduction.

MR COX: Thank you very much for your presentation. As you mentioned during the cost determination period you have moved to a pay for water use system in Gosford and got rid of the previous free area. How has that gone; any problems?

MR WILSON: No, we haven't had any problems. What we do have is a committee that is established should any difficulties be realised by our customers. Within our report to you we advised that we have had to make very little use of that. As a matter of fact, I think we have only had one claim in relation to that. That is following some extensive advertising as well with regards to looking at those difficult situations. The response has been very good and looking at the satisfaction levels for water supply and sewerage it may have had a minor impact, but certainly we don't believe it has had an impact at all.

MR COX: Following on from Tom's question, it is of some concern that you are proposing fairly sizeable increases in some of your charges. It may be water usage is down or not, but is that of concern to you given the socio-economics of Gosford, that we are looking at an increase of prices above CPI?

MR WILSON: We should look historically at what has happened with prices for water supply and sewerage over the last six or seven years and there have been, as you would be aware, some significant decreases in charges for water supply and sewerage, especially for Gosford. We have continued to endeavour to achieve those so I think you have to look at that in context. Our increases may be proportionately high over the next two years, as we anticipate, but if you were to look at the last six or seven years it is still a significant decrease on what we originally used to charge for water supply and sewerage.

MR WILLIAMS: The review points out that our costs at the moment in real terms are only about 70 per cent of what they were five years ago. There has been a significant decrease overall in cost.

MR COX: I think it is certainly true there have been reductions in costs and prices, and from my point of view these are good things that benefit the community as a whole. Looking forward, perhaps some cause for concern, there seems to be pressures to increase spending. As Tom mentioned, your spending was more than expected in the last determination, you seem to be moving into a period where prices are going up rather than going down. What is the longer term; what does the community here want; what is to be achieved?

MR WILSON: As far as what the community wants, there are a number of ways that we go about doing that, and certainly surveys is one of those processes; through our workshops, through our exhibitions, public meetings, but at the end of the day also we have ten elected representatives that I can assure you are very keen continue, the majority of them, to continue as councillors, who very much have the views and the needs of the community at heart. We are obviously moving up to a council election in September. We are looking at new prices for all our services being set prior to that election and you can be assured that the councillors won't be embarking on price increases that aren't supported by the community.

MR COX: Would you like to speculate what three or four or five years time you might be seeing? Will we seeing continuing increases in prices?

MR WILSON: The difficulty we face is the uncertainties we have referred to already in our submission and which I reflected upon in the presentation. If I knew what the impacts of water sharing plans were going to be, the other environmental issues, what the requirements were going to be as far as EPA is concerned in the future, what the requirements of the community may be as a continuing change, what the outcomes may be from the current consultancy that we are undertaking, then perhaps I would be in a better position to say.

What I can say is that as an organisation we are very keen to make sure that we provide a high level of service at best value, and that is what we endeavour to do. As we have outlined in our submission, we do that through many different processes such as benchmarking, through our membership with the various groups, and we are continuing to look and reflect upon the pricing and services that are being provided by other similar authorities. That is what we will continue to strive for.

We are certainly not about increasing costs for the sake of it. We also had the issue of sending the true signal to the community about the cost of water. My view, as I said, is that the rate of return that we are achieving now is too low, that we should be looking at a commercial rate of return that reflects the true costs of water, and that, if

we are going to go down that path, which I certainly hope we will, will obviously reflect in the prices that need to be charged.

MR COX: You mentioned you were undertaking a review of asset management planning. Perhaps you could talk a little bit about that review and what might emerge from it?

MR WILLIAMS: There are a couple of things going on at the moment. Obviously the important thing is to get better management of our assets in terms of their life circle analysis and in terms of identifying what our assets are that are critical in terms of managing the system. We are in the process at the moment - we have just advertised for an asset manager to come on board to manage the assets across the council, of which the water supply and sewerage assets will be a key part of that.

We are expecting to hold interviews within the next couple of weeks. That person will be dedicated full time to developing the asset management strategy that will be rolled out in water and sewerage. That will build on the various asset management strategies that we have had in the past.

MR COX: You described a process of, I might call this a regulatory creep, whereby you design an asset that will achieve better than the standards the EPA requires because you believe the community requires that, then the EPA says it requires higher standards, you decide you have to work even better so you can be safely ahead of the standard. That sort of a process, if it goes on too much with too many assets, will put up prices quite substantially.

What do you think about that? Is that a danger? What sort of strategies can you think to head off that?

MR WILSON: The issue of the treatment plant and it's design to achieve that higher level certainly came about as a result of extensive community consultation at that time. Obviously there is that trade-off between additional costs or prices against the increased level of service. If we were in that situation or facing that situation again we would again go through an extremely consultative process.

Whether you agree or not with regulatory creep, I think as far as an outcome for the community over the life of that asset and where we are at the present time is what they desired, so I would not go back and change it. It is what they desired. They certainly knew the additional costs that were going to be involved in going down that path and hence they are very keen to make sure that we continue to provide that high level of service as well. But obviously it does create those impacts and we would certainly have to be sure with future major asset creation that we are well aware of the implications that may occur.

DR PARRY: Thank you very much indeed.

WYONG SHIRE COUNCIL

DR PARRY: We will ask the Wyong representatives to identify themselves for the record and we will proceed.

MR DAWSON: John Dawson, General Manager.

MR GRANTHAM: Ken Grantham, General Manager.

MR THOMAS: Graham Thomas, Wyong Shire Council.

MR CATHERS: David Cathers, Director of Engineering.

MR DAWSON: I seek your guidance. We operate under exactly the same regulations and very comparable circumstances as Gosford. I would presume you don't want me to go through all those difficulties and things again, so can we take that as being read, and that we support the Gosford submission in as far as that is concerned?

DR PARRY: Have you read every word of it?

MR DAWSON: In general.

DR PARRY: That is a very, very brave statement, to support what somebody else has said.

MR DAWSON: With the regulatory circumstances and the cost pressures, insofar as that is concerned. That being the case, I will ask Graham to shortly address the general overview of the shire and the circumstances in which we are operating and factors influencing price movements; and Ken to address other specific issues, including asset management. In that way I think we will cover everything.

MR THOMAS: Thank you, members of the tribunal and ladies and gentlemen. Today I will be providing a brief overview of Wyong Shire and then provide an overview of council's pricing proposal, including the key issues considered in preparing the submission.

I will then hand over to Ken Grantham who will outline council's position on issues such as demand management, efficiencies, development charges, cost of regulation, water restrictions and the impact of Healthy Rivers and the Water Management Act.

Firstly, the shire covers an area of 827 square kilometres and is bounded by Gosford City Council to the south, Cessnock City Council to the west, Lake Macquarie Council to the north and, of course, the Pacific Ocean to the east. Wyong Shire continues to be one of the fastest growing areas in Australia with the population expected to continue to grow at a high rate. The current population of the shire is estimated to be almost 140,000 with an annual growth rate of around 2.2 per cent per annum.

All future greenfields urban development on the Central Coast will be accommodated in the Wyong Shire and will result in around 20,000 additional residential lots. The shire's population is projected to grow approximately 200,000 by the year 2021, an increase of almost 50 per cent over the current population.

The shire's demographic profile has both a large number of older people and families with young children, a high proportion of single parent families and a high unemployment rate. Local employment opportunities have not kept pace with increased demands for jobs and the region is more dependent on other regions for employment, particularly Sydney.

In assessing council's current pricing proposal, it is useful to consider where we have been and what council has achieved in terms of reduced water and sewerage charges.

This next overhead shows the reduction in total water and sewerage charges in real terms for an average residential customer over the past 10 years. Clearly, significant reductions have been achieved. The average residential water and sewer charge has reduced from $798 per annum to $581 per annum. This is a 27 per cent reduction and represents an annual saving of $217 for the average household.

Council is proposing that for 2003/04 income from charges be increased in real terms by 3 per cent. For 2004/05 it is proposed to maintain income from charges in real terms. For the purpose of this submission, CPI has been forecast to be 2.5 per cent per annum.

Consistent with council's intention to increase water usage charges by 5 cents per annum until parity with Sydney Water's and Hunter Water's usage charges is reached, it is proposed to increase water usage charges per kilolitre to 75 cents in 2003/04 and to 80 cents in 2004/05. A corresponding change in water availability charges has been proposed that will result in total revenue and charges for the average residential consumer increasing by 3 per cent in real terms in 2003/04 and remaining constant in real terms in 2004/05.

Council acknowledges the relative price inelasticity of water usage, particularly at current pricing levels. However, the proposed increase in usage charges is considered to be sending the

appropriate consumption price signals to consumers and is seen as just one component of council's overall demand management strategy.

In developing council's pricing proposal a number of issues have been identified that will significantly increase operating expenditures, particularly shared corporate support costs, and hence increase council's revenue requirement for 2003/04 and beyond. These identified increases will be in the order of $1.1m per annum and represents 3 per cent of water and sewer underlying net sales revenue.

The items contributing to this increase are increased information technology costs resulting from the replacement of council's outdated corporate information system. This item alone will increase shared corporate support costs by around $630,000 per annum. Insurance costs, as we know, have increased in the order of $100,000 per annum and may well increase further.

Shared corporate support costs have increased in the order of $140,000 as a result of the implementation of recommendations of an independent organisation audit and review as well as a decision of council to increase customer service, planning and development assessment staff to address the impact of continued strong growth over many years combined with increased service level demands.

The increase in the compulsory superannuation guarantee levy from 8 per cent to 9 per cent has increased costs by around $90,000 per annum. Operating costs associated with the Gosford/Wyong joint water supply will increase on average by about $160,000 per annum. It should be noted that the majority of these cost increases will be incurred during the current 2002/03 financial year and are not being recouped in current charges.

A number of other cost increases incurred over the past two to three years have been absorbed by council and do not form part of the proposed 3 per cent real increase in income from charges. These items include the impact of increasing environmental standards, increased occupational health and safety standards, increased chemical costs and the cost of complying with ever increasing legislative and regulatory requirements.

In addition there have been a number of emerging issues identified since council's pricing proposal was prepared and submitted. These issues have the potential to impact on our operating costs and hence future revenue requirements. Firstly, during the audit of council's water supply authority statements for 2001/02 the New South Wales Audit Office raised the issue of drainage operating costs not being reported in the water supply authority's financial statements given that drainage capital works are undertaken and recognised within the water statements. This issue is yet to be resolved. However, it appears that the likely outcome will be that drainage operating will in future be recorded as a water supply authority operating expense.

A proportion of this expenditure may continue to be funded from council's general fund for those drainage works that principally service the road network. However, there will be a proportion of this expenditure that correctly will need to be funded by the water supply authority.

Currently drainage operating expenditures are running at $460,000 per annum. Secondly, council recently resolved that the water supply authority provide rebates to existing households that install rainwater tanks. These rebates will be consistent with the rebates offered by Sydney Water and are estimated to cost an additional $100,000 per annum.

In addition, council also resolved to investigate further water saving initiatives that may be introduced that may result in further incentives or rebates, for example, spear pumps, bores, efficient water fittings and appliances, household tune-up programs and water audits. These issues have the potential to increase council's revenue requirement by a further half to 1 per cent in real terms over and above that included in the proposal.

In addition, we heard Gosford comment on dividends. The National Competition Policy Review Bill passed by parliament includes a proposed amendment that would effectively allow a dividend to be paid from the water supply authority to the council's general fund. Council would support a dividend payment to the general fund for the risks undertaken. However, current prices and the proposed prices included in council's submission do not include any allowance for dividends to be paid and as such prices would need to be adjusted accordingly to sustain that.

Although not directly impacting on the price path period under consideration, consideration should be given to the likely outcomes of the review currently being undertaken of options to ensure water supply security for the future. There are a number of options being assessed. However, it is clear that whatever options are recommended, a significant level of capital expenditure will most likely be involved.

This will impact on future capital and operating expenditures as well as debt servicing costs. Based on current modelling, these increased costs will necessitate further increases in prices in excess of CPI in subsequent price determinations. So there is a risk that if prices are set at inappropriate low levels at this determination, very significant increases in excess of CPI may be necessary at the next determination.

The proposed real increase in revenue from charges has been kept at a minimum by significantly reducing investments held and increasing loan raisings during the period of the determination. Investment balances will reduce by $10m or 30 per cent and $17m of loans are proposed to be raised during the period.

The water supply authority's debt service ratio expressed as a percentage of net sales revenue is approaching 25 per cent by the end of the determination period. That is, for every dollar raised by charges, 25 cents is used to repay debt and interest on debt.

Before I finish up and hand over to Ken, I briefly would like to comment on and clarify some issues in relation to council's operating expenditure performance and the base opex used for this pricing proposal. Quite clearly there has been variability in operating expenditure over the past three years. This variability has generally been the result of a number of one-off items including significant movements year to year in worker's compensation expense resulting from movements in workers compensation liability as calculated by council's actuary.

There have been one-off non recurring increases in maintenance costs during the period and the major source of variation in operating expenditure in recent years has been the fluctuations in overheads allocated to operating expenditure as opposed to capital expenditure.

The 2002/03 operating expenditure projection is the base year used for future years projections of opex in council's submission and is what council considers to be its normal underlying operating expenditure base and as such any one-off historical fluctuations have been excluded from the base and therefore future projections.

It is useful to compare this 2002/03 base year operating expenditure to 1998/99 operating expenditure which was the base year expenditure for the previous determination.

In this overhead, we can see that in real terms total operating expenditure has increased by 12.8 per cent, while the number of properties serviced has increased by 10.3 per cent, resulting in a real increase in total costs per property of 2.2 per cent. It should be noted, however, that operating and maintenance costs have only increased by 6.5 per cent while administration costs have increased by 27.1 per cent.

Earlier I detailed the identified increases in operating expenditure which were basically the justification for the proposed 3 per cent real increase in prices. These amounted to approximately $1.1m and included the items mentioned, increased technology information costs, increased insurance costs, increased superannuation guarantee levy, et cetera. These items basically explain the majority of the increases in administration costs.

If we look at the underlying operating expenditure before this additional $1.1m we see that the admin costs have increased by 6.9 per cent and total operating expenditure by 6.7 per cent against property growth of 10.3 per cent. This means that the underlying costs per property before these identified items has in fact decreased from $355 per property to $343 per property or a 3.3 per cent reduction over the period.

This reduction in operating costs per property is considered to be a good result against the background of significant cost pressures resulting from increased environmental standards, increased occupational health and safety requirements, increased regulatory requirements, increased salary and wage increases above CPI and increased material costs such as chemical costs.

To sum up, given the identified cost pressures, the level of risk and uncertainty as well as emerging issues council's water supply authority will face over the period of the determination council considers its pricing proposal to be the absolute minimum required and that any less will introduce significant risk of compromising delivery of service over the price path period.

I would like to now hand over to Ken Grantham.

MR GRANTHAM: Ladies and gentlemen, I would just like to address a few issues relevant to council's pricing proposals. The first one is efficiency. Council obviously has a key objective of providing cost effective services to ratepayers and it's management direction in achieving this has been through a mix of day labour and contracted works, recognising that

each has its own benefits and costs for different types of work.

There is a risk that once more work is contracted out, the organisation doing that loses a point of reference as to how those services are being delivered in a cost effective manner compared to what they could have been. Even so, over the years council has maintained this mix. At the current time it is in excess of 60 per cent of capital works that is contracted out. This typically involves large capital works and capital works which involve particular skills which council isn't geared for or capital works where it has been demonstrated that the private sector does deliver those works more cost effectively than council's day labour.

Similarly, O&M works, although very much more a day labour operation, are increasingly being contracted out. The reasons for this are simple. As organisations like Sydney and Hunter contract out more and more day labour works, there is now a private sector market which didn't exist a number of years ago. Again, council tests that market and where that market indicates that services can be provided more cost effectively, works are being progressively contracted out. These exist currently in the area of electrical mechanical maintenance, laboratory services and recently sludge water. Five years ago the sludge watering market in the private sector did not exist.

Council has in place a performance based pay system which has existed since 1993. Pay is linked to lower level performance indicators and that represents a reasonably strong link between performance and achieving the higher level key indicators that council wants to achieve.

In the current reform process council has embarked extensively on benchmarking its own performance against other authorities. Where a study indicates that those authorities may have something to offer in terms of their overall performance, detailed visits to sites have been carried out to centres such as Minto Water, Hastings Council, Maroochydore and Tweed Heads Council, where the council has benchmarked individual processes and looked at ways of improving its own productivity and output.

Similarly market testing is carried out in relation to fixed plant labour cost, contract rates versus calculated day labour rates, and council staff tendering against the private sector for work. The results of this over certainly the last seven or eight years are indicated in the next overhead. It is assumed that these figures are reasonably accurate as they are from the IPART issues paper.

Wyong is the crossed line for 2001 second from the bottom. These results indicate a steady improvement in performance since 1993. From the graph, with the four agencies that IPART is regulating, I suppose we are reasonably comfortable. Our benchmarking with industry standards - it is up there. It is a concern, though, that the consultant who was engaged by IPART to look at O&M costs has zeroed in on labour ratios without, it would appear, too much reference to this graph or even looking at the efficiency of contracted services, and based on those labour ratios appears to be recommending that more work be contracted out.

Following September 11 in the States it is interesting to note that the US Government dismissed all the contractors who were looking after airport security and has engaged a government department to look after airport security. I hope that regulators in Australia do not need a similar type incident to ensure the balance remains in the argument against the appropriateness of contracting out work versus work by the public sector.

Moving onto the next graph, this looks at - again from the IPART issues paper - residential consumption, which is a reasonable indicator of water usage and effectiveness of demand management by the various agencies. Again, the Wyong figures indicate relative to this graph that we are reasonably placed and certainly our benchmarking of other industries indicates that Wyong's performance in this area sits within the upper quartile of local government.

The reasons for this in the past have generally been associated with sustained community education campaigns and regulation. For a number of years Wyong has had in place regulation in relation to new buildings, requiring water efficient systems and the like. However, as indicated by Gosford, water and demand management is becoming increasingly important and Wyong is increasing its focus in this area.

A development control plan effective from 1 January next year will provide for water efficient toilets, showers and taps in all new residences, plus a requirement for water tanks. Also, as indicated by Gosford, the joint authority is looking at other incentives for water efficient devices and systems. Council will be continuing with its radio, newspaper and website education to further improve or encourage demand management.

Again, as mentioned by Gosford, the

restrictions in the current drought play their own part in encouraging water usage. I think it is important to stress, though, that where I think both Gosford and Wyong currently sit in relation to water usage, it is certainly at the lower end of the scale. A lot of the big gains have been made and while there are still gains to be made in the way of demand management, we are in the area of reducing returns.

I will go briefly over regulations because Gosford touched on this as to the issues facing council during the determination period and beyond. EPA regulations in relation to odour, the EPA has a draft policy from January 2001. That impacts our current capital works program and will impact future capital works programs.

Licensing of sewerage systems - not quite so clear. Certainly we don't see it impacting our current capital works program but it certainly could impact future works programs. The Water Management Act and water sharing plans the impacts could be significant, so significant that there is probably no way that we would have a lead time within the current price to implement the works that may be required. It could have a major impact on future works. The Healthy Rivers Commission, their works in relation to the Hawksbury has impacted current works programs in relation to fish ladders on weirs and improved or increased monitoring programs within the catchments. Certainly environmental releases could also affect future yield and hence capital works.

In terms of those future capital works, again I will go briefly because Gosford has covered this, the water supply review could have major impacts on our future capital works and that needs to be, although not this price path, certainly the next price path we could expect it to have a major impact.

In terms of water quality, our sustained and increasing development in the northern areas of our shire is increasing the length to which water has to be distributed. This impacts the ability to maintain chlorine residual and we have found that through regrowth of ^ chloroforms within the system, although at present operationally they are being maintained, although we have in fact breached the NH&MRC guidelines in that area. It is a secondary indicator, not a primary breach, but it is a concern. They have been kept under control currently by our reservoir maintenance, ensuring that the system is covered through minimising. However, that may incur some cost in the future.

Also sediment in the mains, which has been an issue for a number of years, is getting under control, but that has incurred capital expenditure. Wyong, as Graeme indicated, is a high growth area. Growth in excess of 2 per cent per annum is forecast to continue for the foreseeable future. That will have a significant impact on future capital works expenditure.

Odour standards and EPA licensing we have covered previously. A few general issues that I would just like to cover are in terms of the customer survey. Our last survey in September 2002 indicated a 16 per cent dissatisfaction with the water supply. Half of those, 8 per cent, was due to the current restrictions and 4 per cent was associated with water quality, which were those issues associated with our high growth and sediment in the system.

I don't think we can get past a hearing without mentioning development charges and the cap on what we can levy which therefore represents a direct cross-subsidy from existing users to developers. I think that is enough said on that one. Council would like to see that removed.

The final issue I would like to raise is the cost of regulation. Certainly the report prepared by the tribunal's consultant appears to have focused on asset management systems and the like. In discussions, to quote the consultant, we may have in place an appropriate asset management system for the business but not for the regulated environment in which it exists. That is accepted, because the regulator can state whatever the requirements of that environment is, but I think it must be accepted upfront that this is a cost of regulation and it is not a cost that would be incurred in efficiently managing a business. Thank you.

DR PARRY: Thank you very much, gentlemen. Thank you for that table that splits out some of the operating costs, which is actually quite useful to see. If I can just ask for some clarification, I think that Graeme mentioned that there was a reallocation of some overheads to those operating costs and you identified the admin line item and you indicated what some of those costs were. Is that a reallocation from somewhere else in the water sewerage business? Is that a one-off?

MR THOMAS: It is simply an allocation of an operating capital expenditure. We look at the total overhead cost and currently we have allocated it on the basis of total expenditure. If capital expenditure reduces in any particular year, which is the case, it goes to operating. We are reviewing that process

between now and the next determination. However, it is only an allocation process so it is not going to impact the level of expenditure, hence our revenue requirement. But it is something we will be looking at in the future.

DR PARRY: As you indicated, it gives potentially a distorted picture of what is happening with that operating cost line.

MR THOMAS: That is correct.

DR PARRY: It was just a reallocation between capex and opex overheads?

MR THOMAS: Yes.

DR PARRY: That does clarify that, thank you. In terms of the underlying costs on the operating costs side, I note that capital expenditure has been down a little bit compared to what was expected; but in the operating costs side what do you see as the outlook, leaving aside the allocations, for operating cost and the scope for efficiency, noting that when you strip away the overheads the picture has not been that bad. What does the future look like?

MR THOMAS: In the current price path proposal we effectively are including a 1.5 per cent efficiency improvement in labour costs. We are also including a 1.5 per cent efficiency for overheads in admin costs over the period of the price determination. That is likely not to be achieved because of the impact of implementing a new IT system, which has a significant impact in the next two years on those costs.

DR PARRY: I asked Gosford whether it had any feel for what their customers' attitude might be to the payment of dividends from the water sewerage business to council and the potential impact that would have on prices and bills. Has Wyong any feel for what your customers and ratepayers largely in the same groups have to that?

MR DAWSON: It is not an issue that has been embraced with them but our surveys and our complaints system and all the things that go with that suggests that the community at large is just interested in receiving an adequate, clean water supply and to many of them the costs are secondary to that. It is not that they are not a concern but costs can go up and we get far less complaints than we do than if the system is inadequate or not pristine.

The vast majority of our ratepayers and residents see no difference at all between Wyong Shire Council and Wyong Water Authority. They really don't care where the money goes, as long as they get the services they want.

DR PARRY: I guess related to that, I remember discussions in the past about the move to the two-part tariff and greater reliance on usage pricing and certainly one manifestation of Wyong Council - it may have been several councils ago, I don't recall - had some real concerns about the greater reliance on usage pricing. It has been reduced. Gosford suggested it didn't seem to be on the radar screen. What is your experience?

MR DAWSON: It is not a real issue. The first year it was but I think people - by and large we have a fairly close affinity to the Hunter - and people, particularly in the northern part of the shire, were conditioned by the measures that were taken overnight by Hunter, so I guess there was some acceptance that this was the way of the future.

DR PARRY: Again it is not unrelated, it goes to the question of the per kilolitre water price - it may have been Graeme who mentioned it, that you have a long-term aim of parity on the per kilolitre price for residential water with Sydney and Hunter. I wonder why, and whether that is based in any sense on underlying costs or is it just something that has a headline appeal?

MR GRANTHAM: There is a reasonable amount of logic in that Sydney and Hunter to the north and south have a different price level, although as I indicated earlier the demand management and certainly the prices we are talking about, although I don't believe just by increasing the price you would expect the elasticity of demand suddenly to be such that usage would go down, but it forms part of an overall demand management package and I think it is that consistency that is more the reason for that sort of direction than any specific issue.

DR PARRY: Finally from me, it has been advised to us, I must confess I don't know much about it - but it might explain the desire to update your IT system - the non billing of non-residential sewerage customers' accounts. Where is that at? How is it being worked through the system?

MR DAWSON: All the accounts have been issued and something like 60 per cent have been collected at this stage. Graham could probably comment further on the potential for bad debt in that situation but it is not huge. Once we got through the initial impact of it, it has been going smoothly. It is one of those things that should never have happened and can't be excused but it did and that is where we are at.

MR THOMAS: That just about covers it. We provided for a level of, I think $200,000 potential bad debt, but at this stage it may come in less than that.

DR PARRY: You have made arrangements?

MR THOMAS: Yes.

MR COX: Thank you very much for your submission. I think Ken mentioned that there has been a degree of community opposition or level of satisfaction with water restrictions. What has been your experience with water restrictions and how well are they accepted by the Wyong community?

MR DAWSON: People in Wyong have great difficulty in accepting that what is happening at the moment is a result of a force of nature as opposed to a force of growth. It is an almost impossible task to tell the people the fact that you are putting another 3,000 or 4,000 people a year into the shire, that that is not impacting those restrictions. They just don't see that and, of course, they don't like growth for a number of reasons, many people, so those things are combining to say that there is a dissatisfaction with that. They have now had 20 years of virtually unlimited water, albeit we have been in demand management mode for most of that time. But I really think they would much prefer to pay for the availability.

MR GRANTHAM: There is certainly a mixed signal in terms of, as John said, the reluctance to want to accept it for any reason other than growth, targeted growth more than water. Certainly in the community survey one question related to the restrictions and the general acceptance was that restrictions once every five years is acceptable. That was the most highly targeted number. However, another question, would you be prepared to pay more, and the answer was that they would be prepared to pay more for unrestricted supply. I think as John said, people want water. Although they will accept restrictions, I don't think they will tolerate them for indefinite periods and people don't see restrictions as a normal way of life.

MR DAWSON: The major water boards didn't have restrictions. We are patiently waiting for that to happen.

MR CATHERS: Can I add, certainly the community groups that we have been addressing over the last few years, people have tended to become more conditioned. Obviously as the drought goes on, as lawns essentially start to become browner, et cetera, there is a conditioning process out there.

There is, I guess, a more reluctant acceptance.

MR DAWSON: We are using this opportunity to make gains on reuse, which was virtually unsaleable in the community before this. But if this goes on - maybe if the rain goes on we will not have a problem - but if current trends continue then reuse will become more acceptable.

MR COX: You explained some of the things you have done in the past to improve efficiency and you pointed out the performance has not been too bad. I don't get a sense of where the future efficiency gains are coming from. What is your thinking on that?

MR DAWSON: We maintain a team of three people in constant review of the organisation as a whole, not just the water authority, and part of the work that we are doing for the installation of the new IT system is unearthing some areas, some small, some not so small, where practices that can be improved are coming to light. But it is a case of constantly reviewing processes and I think the new IT system itself, once it is installed, once it is up and running, will improve our situation.

In the short term it is probably going to result in increased costs and reduced service levels, just purely because of the sheer weight of the complexity of it and the resources needed to get it up and running. Beyond that I have no doubt that a number of manual tasks at the moment will disappear.

MR CATHERS: In terms of efficiency, work still has to be done. Therefore we are talking about ways of doing it. Council has in place a demonstrated method of benchmarking and of continually improving its operation. The major issue I was making is once you let a contract, or as appears to be the trend in some areas, let's assume that is efficient, often times the final end result does not confirm that and council does have a concern about just going down that path for the its own sake.

MR DAWSON: Can I add, certainly in my time at the council I have seen periods where contracts were certainly checked, so in times of economic downturn there is no question that contractors are doing it cheaper than we are. I have seen an instant boost, generally by dint of government decision or just economics, in the housing industry or something like that, and the cost of contracting far outweighs our own operations. It is a cyclical thing but it is something we are mindful of. I would not foresee, barring a huge philosophical change in council, that there would be wholesale move away from day labour.

MR COX: You are proposing an increase in price of 3 per cent in real terms. You pointed out already that Wyong is not an enormously prosperous area. Is that a reasonable thing to ask the community to pay, and why do you think it is?

MR DAWSON: I can only go back to the survey, which was fairly wide, and also to examine what has happened in the past. The charges have come down substantially in real terms and the community is not going to be happy if we are in severe drought restrictions or restrictions when these charges take place but, insofar as any level of charges is affordable, I believe they are, so it goes back to what does the community want. And the community wants a level of service ahead of other things.

MR COX: Is there concern, for example, that the increased usage prices might impact on particular sections of the community?

MR DAWSON: Yes. We have similar systems to what Gosford has and the demand on that is about the same. Again, I think I have told this tribunal before, philosophically I have a problem with driving demand management by price but I have had to come to accept that that is the way we are going. I happen to think that the absentee landlords are benefiting enormously from our present system but I am not in control of that any more so we have got to go down the path of charges for water. Albeit that we are not a wealthy area I think we would find exactly the same situation in the Hunter or parts of Sydney.

MR COX: Gosford talked about their plans for improving asset management planning. What activities are you planning there yourselves? And, in particular noting that some of your capital works in the last determination period slipped a bit, can we be confident that you can in fact undertake capital works programs that you are proposing for this coming period?

MR GRANTHAM: I will address the last question first. The capital works program, yes, we had problems achieving the capital works program. There were a number of issues that were identified and raised in submissions to the tribunal. We have employed additional resources for that specific purpose of addressing that slippage in the capital works program so we intend to address that.

In terms of asset maintenance, I raised that issue in one of my last points, council does have in place a system of asset maintenance which by the consultant was said to be deemed appropriate for the business but not for the regulated business. The new IT system which has been purchased, developed and put in place, has the capacity to provide an extensive asset management system. Obviously with any asset management system, the further you go down the tree, the more expensive it becomes to maintain. Right at this point in time, the depth down the tree has not been determined. I dare say there will need to be certain business requirements that council has already identified that it wants to make from a business perspective. I dare say there will need to be talks with the tribunal and the secretariat to look at what regulatory requirements that asset management system needs to make. I suggest the combination of the two would determine the extent to which we go.

MR COX: Thank you.

MR DAWSON: If I can just make one point on the IT, it has been stated elsewhere, I am aware of that, but can I say there is an emphasis on our increasing our IT costs. That is coming from an exceptionally low base. We took the opportunity to buy our equipment previously some many, many years ago, so we are now coming off what is a very, very flat base. I did not want you to think we were buying a Rolls Royce system for the heck of it.

MR CATHERS: If I can make one comment in anticipation of the next determination in two years, the IT system we are purchasing will be substantially put in place over the next two years. The asset management module will probably be the latter part of that, so when we are sitting here in two years time we will be able to tell you what we are putting in place. But don't expect it to be fully implemented.

DR PARRY: Thank you very much. We might have a five minute break.

(Short adjournment)

GOSFORD / WYONG JOINT WATER AUTHORITY

DR PARRY: We resume with the Gosford / Wyong Joint Water Authority. If you would identified yourself formally for the record.

Before you do that, I must say that we have heard of the Gosford Wyong Joint Water Authority for about 10 years and it is nice to actually meet the manifestation of it to prove that it exists.

MR MURDOCH: I assure you that it exists. Thank you very much indeed for the opportunity to make a submission to the tribunal and on behalf of the / Gosford Wyong Joint Water Authority, I will firstly describe to you what it is and what it does, then we will consider some of the issues.

The functions of the water authority: Firstly, I should say of course the assets, the water assets, on the Central Coast are owned jointly between the two councils and managed jointly as a system rather than taking account of local government boundaries.

The functions of the authority are to provide a strategic planning function for safe and affordable water; to provide inputs for council planning taking a regional perspective; to represent the councils on joint water supply issues; to take a role in strategic asset and catchment management, looking across the region as distinct from local government boundaries; to undertake operational audits; set standards and assist in determining management policy.

What is the water authority? The water authority has a board of management and there is equal representation from each council and I am the independent chair of the authority.

Resources: We have a staff of three full time and two part time. We have a headworks manager, we have a couple of environmental people, administrative support, and we draw fairly heavily on external resources, consulting resources, and obviously the staffing resources of the water authority work fairly closely, very closely, with the resources of the two councils.

The water authority on the Central Coast can be considered to be the third largest in the State after Sydney and the Hunter. I mentioned earlier, it is jointly owned by the two councils, and most of it has been built within the last 20 years but there are elements that are up to 75 years old - infrastructure, of course.

Let me describe now the existing system. The existing system is based on an adopted strategy of 1985, a "run of river system", relying on four small source streams and creeks on the Central Coast, and it is supplemented by storage, the major storage being Mangrove Creek Dam. I have listed the dams there on the overhead and you can see that Mangrove Creek Dam provides almost all of the storage capacity of the scheme, 94 per cent, of a total of just over 200,000 megalitres.

If we look at the catchments, the Wyong River catchment accounts for almost half of the total catchment area of just over 800 square kilometres.

Just to put a perspective on the largest storage, Mangrove Creek Dam, it is about 9 per cent of the capacity of Warragamba. There have been releases from Mangrove Creek Dam into Mangrove Creek on an average of 40 per cent of days over the last 10 years.

There is also a transfer tunnel from Mangrove Creek Dam to the upper Wyong River, 11km, quite a large tunnel. At the moment there is only ability to transfer water from Mangrove Creek Dam into the upper Wyong River and not yet, as was originally envisaged, to move water back the other way from the river up into storage at Mangrove Creek Dam.

There are treatment plants at Somersby and Mardi - about 160 megalitres a day each, very traditional straightforward water treatment, removing suspended solids and disinfection. In progress there is a new intake tower for Mardi. The current system is distributing via reticulation 34,000 megalitres per year through obviously trunk mains and smaller reticulation pump stations and about 40 reservoirs over the Central Coast.

The safe yield of the system at the moment, as you know we are just undergoing a major review with the Department of Public Works and Services as our major consultant, and all of these matters are under review, but the safe yield of the system is thought to be 47,000 megalitres per year starting with storage at full. Obviously they are not at the moment, but at 40 per cent full, which is about our current level of storage, safe yield is something closer to 30,000 megalitres per year, which is close to current consumption. Were we to get down to 30 per cent of our storage capacity, which could well happen say by the end of next summer if we miss out on normal autumn rains in 2003, our safe yield might be as low as 25,000 per year.

Let's look at supply and demand for a moment. The available flow at the extraction points on the four streams and creeks that I mentioned is an

average of ^ 193,000 megalitres a year. Current demand is 34,000 megalitres a year, and if we look out 50 years and at the baseline demand, taking account of population growth and so on, we would expect that demand in 2050 will be something like 55,000 megalitres a year.

That obviously can be reduced by additional demand management measures and the natural attrition of older appliances and replacement with water efficient appliances, and there can be productive things done to make that happen faster.

On the other hand, that demand will be increased by climate change effects and if we take CSIRO mid range projections for the Central Coast looking over the same sort of time frame, we would expect a 5 per cent increase in demand. You can see there may be some potential to offset between those two.

As you know, of course, there has been as elsewhere a fairly challenging water sharing planning process over the last 12 to 18 months with a great degree of community consultation and with the objective under the water reform agenda of various local governments and the new Water Management Act of increasing allocations to the environment to maintain the ecological health of the environment. The outcome of the draft plans that we have been involved in so far is that after increased allocation to the environment we were left with somewhere between 30 and 60 per cent above baseline flows of available water for use for town and rural use. The draft water plan suggests 30 per cent. I think it may be that that may prove to be an ideal target towards which people ought to work, or it may prove to be an absolute number.

At 30 per cent water share, in red there, 30 per cent available water above baseline flows, the available water for town water supply would be less than 31,000 megalitres per year, actually less than we are consuming right now. It may be possible to increase that to something like 40,000 megalitres a year by increasing existing pumping capacity, to be able to pump more of the wet weather flows. If we look at the possibility of harvesting, if you like, a 60 per cent share of available water, the water available for town water supply would be less than 52,000 megalitres per year and that might be able to be increased to something like 75,000 with more wet weather flow pumping.

To summarise, the outcome of the water sharing planning process, at a 30 per cent share there is no expansion, no engineering or infrastructure expansion of the existing service that can meet projected 50-year demands, and without any question we need to be looking at alternate sources, and I will come to that further. Just briefly, alternate sources will obviously be more expensive than the more readily tapped resources that we can tap today.

I would like to share with you some of the future options - and I am sharing with you here some of the work that has come out of the Public Works and Services consultancy underway at the moment. At this moment it is in draft form only and therefore this submission, or this hearing, puts it in the public domain, if you like, but I am sharing with you outcomes of a draft planning process, I am not giving you outcomes for decision-making at the moment.

First of all, if we look at the options on the demand management side, it is projected that over the next 50 years with natural attrition of old appliances and replacement with more water efficient appliances we will see something like a 13.5 per cent less demand and it is thought that other demand management programs might yield something like 3 to 5 per cent in savings.

However, we know that climate change is working in the opposite direction and therefore the net reduction after climate change is likely to be something like 10 per cent looking out over the next 50 years.

Rainwater tanks might increase the system yield. Both, under existing plans, instruments of council and other things that we have might do, might increase system yield by something like 3,000 megalitres per year.

Let's look now at surface water development. If you think about the natural water cycle, you have rain, precipitation, which can be harvested in a centralised fashion using things like Mangrove Creek Dam or in addition using rainwater tanks. The only other natural sources of water for town water supply are groundwater, sea water and reuse of water that we already have.

Talking about surface water development options, we are looking at the supply side of the equation. One option is to upgrade pumping capacities to capture more of the wet weather flows. We could implement the original strategy adopted back in 1985 of implementing a transfer system to enable water to be taken from the upper Wyong River through the existing tunnel up into storage at Mangrove Creek Dam.

We could do the same thing, but taking water

from the lower Wyong river rather than the upper river, and there may be some considerable environmental benefits in doing that, but harvesting it at lower Wyong River and moving it via pipe or tunnel, buried pipe or tunnel, to upper Wyong and through the tunnel. They are two alternatives, much the same sort of outcome.

Obviously we could also look at taking water, implementing transfer systems from the lower Mangrove Creek, by buried pipe or tunnel, into the dam, and also look at possibly implementing a second storage near the existing Mardi Dam. They are the key feasible options at the moment for augmenting surface water.

Another possibility would be to look at possible transfers from the Hunter by upgrading the existing link from the Hunter. That was also part of the 1985 adopted strategy. At present there is no spare yield in the Hunter system and even after some augmentation works in 2006 in the Hunter the spare capacity in the Hunter system will be limited, so there is not a lot of prospect of significant movements of water either north or south between here and Hunter.

Let's move to groundwater development. The consultants have analysed the potential for harvesting water from aquifers at Karuah and Mangrove Mountain and potentially there maybe 2,350 kilolitres per year. There may be just under 2000 megalitres per year available from the Tuggerah Beach dune aquifer at a lower cost, and about 1,000 megalitres from a second beach dune aquifer and maybe a very small quantity from the Woy Woy/Umina aquifer for irrigation purposes only. You can see that the major potential to access groundwater from aquifers would be on the Mt.

Obviously there are issues of access and environmental sensitivity. Also it is not scientifically understood just what the connectivity is between groundwater and surface water and it is thought, for example, that up to half of the flows in Mangrove Creek may be coming from the aquifer on the mountain, but that connectivity is not scientifically understood and we are attempting to put in place a study to get a better handle on that.

In total there may be a total potential of something up to 6,000 megalitres a year from groundwater resources.

Desalinisation: There has been considerable research into this globally now for 25 or more years, such that the current cost of desalinisation has come down dramatically. At the same time, the cost of traditional water treatment methods have been rising simply because in most parts of the world we have been using up the easy or low cost options, therefore in many parts of the world the cost curves between traditional treatment and desalinisation are crossing over.

Obviously in the Middle East they crossed over a long time ago. That is where more than 60 per cent of the world's desalinisation is. They crossed over quite sometime ago in places like the Caribbean. Singapore is currently implementing desalinisation to cover itself. They feel vulnerable because they rely on Malaysia. Perth Water Corporation is now introducing it as contingency planning for drought and climate change. It is currently dependent on 50 per cent of its water coming from groundwater, so they feel somewhat vulnerable.

There is certainly a desalinisation potential on the Central Coast. We have obviously abundant seawater, being on the coast, and we also fortunately have potentially low cost waste heat, thermal energy, in the form of waste steam from power stations, both at Vales Point and Eraring.

A distillation plant operating at full capacity with a capacity of 20 megalitres a day from seawater would deliver water into the system, high quality distilled water, at about $1 a kilolitre. A larger plant, 50 megalitres a day, would achieve about the same outcome with a slight improvement in cost.

Obviously one major benefit of something like desalinisation is that it does reduce climate dependency. Our system is 100 per cent climate dependent. With desalinisation, there do come issues of brine disposal, which is about twice the strength of seawater, so that needs to be handled sensitively.

Turning to water reuse - we have looked at surface water, groundwater, seawater. The only thing left is to use what we have already got. There is potential to further treat already treated effluent at the Kincumber Wyong and South Charmhaven treatment plan and use that reclaimed water for public open space irrigation at a cost of almost $2 a kilolitre, wi th a demand reduction of something like 2500 kilolitres a year.

There is a much smaller potential using treated effluent from Toukley, Bateau Bay treatment plant, and looking at Mannering Park and / or Charmhaven there may be potential to further treat and use just over 1,000 megalitres as process water at the power stations.

There may be potential to use reclaimed and further treated water within the catchments for rural purposes, irrigation, but obviously that brings up very sensitive issues about using reclaimed and treated water within catchments rather than as distinct from using them downstream of catchment weirs.

Finally, there would be potential to use reclaimed water for environmental flow substitution. For example, it would be possible to take up to 50 megalitres a day of reclaimed water, treated effluent that is further treated, and return it back into the source streams and creeks that we are currently drawing on downstream of the weirs to replace environmental or make a contribution to environmental flows.

There would be potential to reuse up to 80 per cent of dry weather flows from all the treatment plants, increasing the system yields by something like 20,000 megalitres a year at a cost of 65 cents, 70 cents a kilolitre.

Let's try to assess some of those options. The water sharing arrangements are obviously key to strategy and price path, whether it is 30 or 60 per cent. It has already been mentioned that the current per capita demand on the co ast is relatively low, but demand management net of climate change can yield 10 per cent. The various options were just discussed.

Where to from here? This is the result of a draft study so we have to go through the process of community consultation, workshops with interested groups, refining the options and looking at socio-economic impacts and developing methodologies to evaluate these.

Finally, what price water? I heard some comment earlier about using pricing as a demand management tool. Personally I am very attracted to that. I know UNESCO and others have been saying that globally if we don't have a global objective, we will get close to exhausting all the technical solutions and we need to start thinking about using pricing as a demand management tool. Obviously that brings up very sensitive social equity issues that have to be dealt with.

I would like to suggest that overemphasising price drives lowest direct cost solutions. The indirect costs are just as important and even though they might be hard to measure I strongly feel that we need to, when we are looking at these things strategically, take a weighted multicriteria approach to this and that sort of approach does encourage innovation and allow new things to come to the surface.

We need to be considering and looking at alternatives, not just on the basis of cost and price but also on timeliness of delivery, water quality and quantity, environmental impact, community acceptance issues, technological risk, climate dependency, vulnerability to terrorism, accident dependencies, power stations, whatever, whether we are diversifying risk or we have all our eggs in the one basket.

There obviously may well be other important criteria and we need to develop a methodology for weighting those and assessing their relative importance and also rating the outcomes. I think that is it.

DR PARRY: Thank you very much for that. That is interesting and, as I said, it is interesting to actually see somebody from the joint authority.

I only have a couple of questions. One of the questions is, who ultimately will make the decision or decisions and what is the likely timing of decisions being made and announced?

MR MURDOCH: The process from here is that the water authority board will consider the results of the consultancy and will make recommendations to the two councils in due course. Obviously there is probably something like from here a minimum 12-month period of community consultation and discussion and refinement of options and so on.

DR PARRY: The decision has been made by councils and conveyed to the authority, is that correct?

MR MURDOCH: I think the authority will consider the information and form a view and then make a recommendation to the councils for funding and implementation.

DR PARRY: And that is at least 12 months away?

MR MURDOCH: I would say so, by the time we have the necessary peer reviews and community consultation.

DR PARRY: In terms of costs sharing, given that there may well be different pressures arising on the growth side as between Wyong and Gosford, is there any thought at this stage about cost sharing of whatever options arise which might have implications in terms of safe capital expenditure?

MR MURDOCH: I might ask for some help here. I think the

spirit of it would be to approach it as currently, and that is 50/50.

MR CATHERS: The current process allows for different cost considerations from the two councils, depending on where the drivers are, so to speak. That would be taken into account for future expansion.

DR PARRY: It may well be that there is a departure from the 50/50?

MR CATHERS: It is not a set 50/50.

MR DAWSON: There is a joint agreement between the two authorities, Gosford and Wyong, and that establishes that we will fund the capital cost 50/50, but then there is a formula that comes into play that says we will reimburse one another each year, depending on usage and a number of factors. That is already in place. There is also some capacity for the joint authority to drive decision-making in the two councils, so it is not totally up to the two councils to say "we won't be in it".

DR PARRY: Thank you.

MR COX: When we meet again in two years time in this room, how much clearer will the situation be?

MR MURDOCH: I think it will be very much clearer. I feel very optimistic and very positive and I don't feel at all intimidated by the current situation, and I don't think the board or councils do. At any time large infrastructure schemes are always implemented in stages. In any case, you wouldn't do it all at once because circumstances and information change and you should be able to have something that is able to be changed and adapted to changing circumstances. I think it is just a matter of assessing all the available alternatives, and I think we are well on the way there, with I think good community consultation, a very good honest process there. I don't see any problem at all in figuring out what the right answer should be for the next step, if you like.

MR COX: So in two years time there will be some decisions, firm decisions, after the planning process, as to the way to go and some idea of the cost implications?

MR MURDOCH: That is absolutely necessary anyway because we are right at the point now where we are running out of supply, if you like. It is a necessary thing and it will happen.

MR COX: I was also interested in some of the costs, desalinisation, $1 a kilolitre, and also the costs of reuse, which seemed to be quite low. Do you want to comment on that, what the source of information might be?

MR MURDOCH: On desalinisation, I think the costs have been coming down quite dramatically in recent years and the costs that you have seen there have come out of the consultancy and they are based on real proposals, if you like, from manufacturers, so they are quite reliable. The reuse costs were also very reliable based on a current factual assessment of what it would cost to further treat already treated effluent and then pipe it and pump it to where it has to be used in playing fields, public open space, whatever. I think they are pretty accurate. They are as accurate as anyone could get them.

DR PARRY: Thank you very much, that was very useful.

CENTRAL COAST COMMUNITY ENVIRONMENT NETWORK

DR PARRY: We now conclude with the Central Coast Community Environment Network. I ask you to introduce yourself formally and we will proceed.

MR ASQUITH: John Asquith, Chairman of the Central Coast Community Environment Network.

Thanks for the opportunity to present today. Our submission that we put in some weeks ago was based on a study we had done 12 months ago into the joint water supply up here. I think first off I might just outline my own background because I am involved in many organisations that are interested in the proceedings of IPART. In particular, I am on the board of the SCA, honorary secretary of the Nature Conservation Council, and both those organisations would have been involved, so I just want to for the record make it clear that I am in no anyway trying to represent the views of any other organisation, only the Community Environment Network.

The network operates across the areas of Gosford, Wyong and Lake Macquarie. We have 180 members. About 50 of them are groups, so an extended membership of around 2000 or so, and our mission is to support ecologically sustainable development and threats. The key issues from our point of view in terms of the pricing inquiry come down to five things: Information and accountability, environmental flows, demand management, water reuse and research.

In terms of information and accountability, price and other signals, we believe need to be available and immediate to the consumer. At the moment there is excess water charges and such, but they are so long after the event.

In saying that, what we have seen is community education campaigns on how and why consumption should be reduced which is really fundamental to any decisions on pricing, and in particular trying to get price to be a demand management signal. Going with that, we think also that an industry campaign on how to reduce consumption and why they should is fundamental as well.

In terms of the Central Coast, while most consumption here is basically down to residential, the industry is fairly limited, the water consuming industry fits into a couple of categories. We believe that water pricing against a variable charge has a lot of benefits. I understand what has been said about absentee landowners and what have you, but water tank subsidies are a thing we strongly support. We believe that water tanks have many environmental benefits, many benefits in terms of demand management, and they can be very much encouraged by pricing signals to people and subsidies.

Maintaining or increasing the catchment yield and water quality, as David outlined earlier, we think that there are things that could be done there. There are issues at the moment in terms of logging, the impact of logging on catchment run-off and yield, in terms of water quality in critical lands.

Because of the way the Wyong and Gosford catchments are set up they are largely west of the freeway. Those lands have basically been developed. It is either forest or agricultural lands, of limited use, and there is a potential there to buy up critical pieces of land or logging rights, but also in particular from our point of view to limit development in the catchments. Some of those things may draw on pricing issues associated with compensation but I don't think that is very large given the way that the area has been planned in the past.

Waste water reuse: In the figures that I have seen, the waste water reuse on the Central Coast is a very low percentage. The Hunter, it is much higher. Sydney is better than us but still very low. About 12 months ago we had discussions with the power stations about what is stopping them taking on reuse, particularly for the steam cycle, and it came down to capital cost, even though they have got a plant right next door and the signals that are driving them now are not ones that require them to put money into that.

In discussion also I had some years ago with the council people about what is stopping them from assisting with these things, why not give them the water, it is waste water, the response I got at that time was, well, it is just too much money, it is helping us to pay for the infrastructure. So we seem to have a stand off in a way and maybe some price signals to industry could overcome that and get what would be a great benefit in terms of augmentation of the scheme.

Hydroponics is an industry that is looked at as expanding on the coast. Water will be a major issue for it. Water from the Mangrove catchment, the groundwater resources up there, have been eyed for a number of issues. Besides bottled water, there will be quite a lot of competition for the ground water in the future as being a cheap source, a lot of debate over what the sustainable yields are, but

nonetheless the reuse of waste water may be a way to go with those things. Again, it needs cost incentives to industry.

Pricing does not support these activities, which has significant ESD benefits. The issue is cost shifting onto the environment as the cheapest option.

Sustainability: In terms of that, the use of waste water instead of potable water in the industry, environmental flows from Mangrove Dam should be used to produce green energy. It is essentially a resource that is being wasted. The energy in that water is not being recovered where it can be. We believe that changes in yield, things such as tanks, demand management, waste water, could mean that the system does not need to be augmented for some substantial time.

In terms of environmental flows - that should be 98 per cent on the screen - but the dry weather flows on Jilliby Creek is very low. Not enforcing ceasing to pump concerns us. People who have riparian rights will be taking water out of the system and at the end of the day the net bit that doesn't occur will be the bit downstream of the weirs and so the environmental flows are likely to suffer.

In terms of why I have put those in this pricing inquiry is that at the end of the day, staff and inspectors or whatever they are, catchment protection officer type people, will be needed to regulate and enforce whatever the water management plans come up with.

We would like to see a timetable for Mangrove Dam in terms of environmental flows and we are very concerned at the high extraction from groundwater without the data. One thing that has become very clear to us on groundwater extraction is nobody knows either the impacts or how much is there or whatever. There is a lot of competition for it.

In terms of that, we believe that some funding should be allowed for research. In particular we look at the consumption figures. Gosford, Wyong, Sydney and the Gold Coast are distinctly different, about a 10 per cent difference each in terms of consumption. The interesting thing from just an intuitive look is that Gosford, Wyong and the Gold Coast are areas going through very rapid population increase. To me that suggests that the infrastructure therefore is fairly new and fresh and maybe it does not leak as much and it is better metered, and you get in the old parts of Sydney they do not have meters. Maybe that is the reason.

Nonetheless it is an opportunity to continue to drive the demand curve down.

Water reuse options and economic evaluation are needed, not just final evaluation, and the data on groundwater and impacts is required.

DR PARRY: Thank you very much for that. We heard just before a very interesting and comprehensive account of a range of possible options and while it was stressed they were draft and will be subject to extensive community consultation, some of those do assume that demand management and possibly reuse won't solve the problem, that problem being a combination of climate and growth. Are there any supply augmentation options that the network would contemplate, if that is right, if the demand side couldn't do that?

MR ASQUITH: I don't know. These issues are always very contentious, even for us. I often point out to people that I am the chairman of a network, not the CEO of a network. I am the servant of my organisation in a way. It tends to be that people's interests are the first thing they come out with and the impact that might have on the environment, or if it is an environmental argument, but certainly when you look at where the catchments are and the competition for groundwater that is already occurring, within the preparation of the management plans it is pretty clear to us that there will be a lot of stakeholders in there putting their case for why they should be able to. And in particular when you look at the value added on bottled water, which is the highest value of any water use, that is where the money is, if water is going to the highest payer, you know.

DR PARRY: The desalinisation, if 95 cents a kilolitre is about right, there are some dispersal issues, as a supply augmentation option?

MR ASQUITH: The trouble with desalinisation, yes, it is good in terms of the ecology of the streams and all that stuff. But the whole issue is, how do you drive it? You need energy to drive it. Fossil fuel, if you are using coal burning, my own feeling is that we have not yet seen the pressures that will be applied to us for the burning of coal. I think climate change is such a huge issue for the whole world and Australia is so dependent on coal that we are not well positioned if, for example, the UN starts to say, well, everyone will crank back coal production 10 per cent a year. I don't think coal in 100 years time will be around at all, I think the consequences will result in that. That is the problem, the energy.

DR PARRY: You have not got necessarily unique, but you have power stations with waste heat which might present an opportunity?

MR ASQUITH: It might in some intermediate period until we go to other technologies for energy, yes.

MR COX: We heard a presentation from Wyong earlier this morning where they were saying that while the restrictions they have imposed in their council area have been unpopular, what people want is water delivered so they can use it when they want it. Any comments on that view?

MR ASQUITH: I certainly don't hear people saying to me that they are unhappy about the current water restrictions. In fact, we tend to hear more from people saying to us, "the creek is dry, it is obvious people are pumping out of it in contravention of their licence", so we are more likely to get the comments from people saying that the creek is dying or the swamps are drying out or whatever because of extraction rather than comments on the restrictions.

MR COX: Are there any environmental issues concerned with the transport and treatment of sewerage that you wish to raise?

MR ASQUITH: There are many issues associated with sewerage. I have been around here for 25 years and certainly was familiar when the original scheme was put in and there were a number of changes made to it. It is a once through system ocean discharge. There are certainly issues with sewerage reuse and there are great problems in trying to find the room to treat it if you are using ponds and so on. Nonetheless I think where you are not talking of a potable area or putting it into an area where it is likely to cause human infection or the like then I think the drivers need to be there to get that in place.

In terms of transport of sewerage, I don't know of any particular issues. We get occasional reports of leaks or holding ponds collapsing or one thing or another but they tend to be sporadic, it is not an inbuilt problem that I know of.

DR PARRY: Thank you very much indeed.

That draws to an end today's hearings but certainly not an end to the process, which we will continue to work our way through with the secretariat. I thank everybody who has come today, thank you.

(At 1pm the tribunal was adjourned accordingly)