IPART
New South Wales

Independent Pricing and Regulatory Tribunal

Review of prices for Country Energy's water and sewerage services

From 1 July 2010

Water — Issues Paper
July 2009

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Invitation for submissions

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

Submissions are due from Country Energy by 11 September 2009 and from stakeholders and members of the public by 9 October 2009.

We would prefer to receive them by email <ipart@ipart.nsw.gov.au>.

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

Country Energy Price Review
Independent Pricing and Regulatory Tribunal
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Our normal practice is to make submissions publicly available on our website <www.ipart.nsw.gov.au>. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning one of the staff members listed on the previous page.

We may choose not to publish a submission—for example, if it contains confidential or commercially sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please indicate this clearly at the time of making the submission. IPART will then make every effort to protect that information, but it could be subject to appeal under freedom of information legislation.

If you would like further information on making a submission, IPART's submission policy is available on our website.

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1 Introduction

The Independent Pricing and Regulatory Tribunal of NSW (IPART) is responsible for setting the maximum prices that may be charged by certain metropolitan water agencies for monopoly water and sewerage services.[1]

In 2008, Schedule 1 of the Independent Pricing and Regulatory Tribunal Act 1992 (IPART Act) was amended to include Country Energy as a standing reference agency for the purpose of the IPART Act. Subsequently, an Order[2] was made declaring that the water supply services and sewerage services provided by Country Energy are government monopoly services.

Country Energy provides water services to over 20,000 people in Broken Hill, Menindee, Sunset Strip and Silverton. It also provides sewerage services to Broken Hill.[3] Country Energy has created a division within its organisational structure called Country Water[4] to be responsible for providing the water and sewerage services.

In this review, IPART will determine the maximum charges to apply to Country Energy's water, sewerage, trade waste, treated effluent water, and ancillary and miscellaneous services, to apply from 1 July 2010 (upcoming determination period). Before setting those prices, IPART will examine Country Energy's water, sewerage, trade waste and treated effluent water functions, its regulatory requirements and the appropriate level of revenue needed to support these activities in an efficient and effective manner.

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1 These include services provided by Sydney Water Corporation (Sydney Water), the Sydney Catchment Authority (SCA), Hunter Water Corporation (Hunter Water), Gosford City Council (Gosford Council) and Wyong Shire Council (Wyong Council).

2 Letter from the Premier of NSW, 5 November 2008; *Independent Pricing and Regulatory Tribunal (Country Energy) Order 2008.*

3 As stormwater drainage services are provided by Broken Hill City Council, stormwater charges will not be determined as part of this review.

4 Generally speaking, throughout this paper a reference to Country Energy is a reference to the water and sewerage services provided by Country Energy.

1.1 Scope of the review

This review will be conducted under section 11 of the *Independent Pricing and Regulatory Tribunal Act 1992* (IPART Act).[5] Under section 15 of the IPART Act, IPART is to have regard to the following matters in making a determination:[6]

- the **cost** of providing the services
- the **protection of consumers** from abuses of monopoly power in terms of prices, pricing policies and standard of services
- the **appropriate rate of return** on public sector assets, including appropriate payment of dividends
- the **effect on general price inflation** over the medium term
- the **need for greater efficiency** in the supply of the services so as to reduce costs for the benefit of consumers and taxpayers
- the **need to maintain ecologically sustainable development** by appropriate pricing policies that take account of all the feasible options available to protect the environment
- the **impact on pricing policies of borrowing, capital and dividend requirements** of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets
- the **impact on pricing policies** of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body
- the **need to promote competition** in the supply of the services
- **considerations of demand management** (including levels of demand) and least cost planning
- the **social impact** of IPART's determinations and recommendations
- the **quality, reliability** and **safety** of the services.

In considering these matters, IPART must balance the diverse needs and interests of stakeholders – such as customer affordability, environmental impacts and the maintenance of overall customer service quality – and ensure that Country Energy is adequately recompensed for the services its provides.

IPART will also take account of principles adopted by the Council of Australian Governments (COAG) and contained in the National Water Initiative (NWI).[7]

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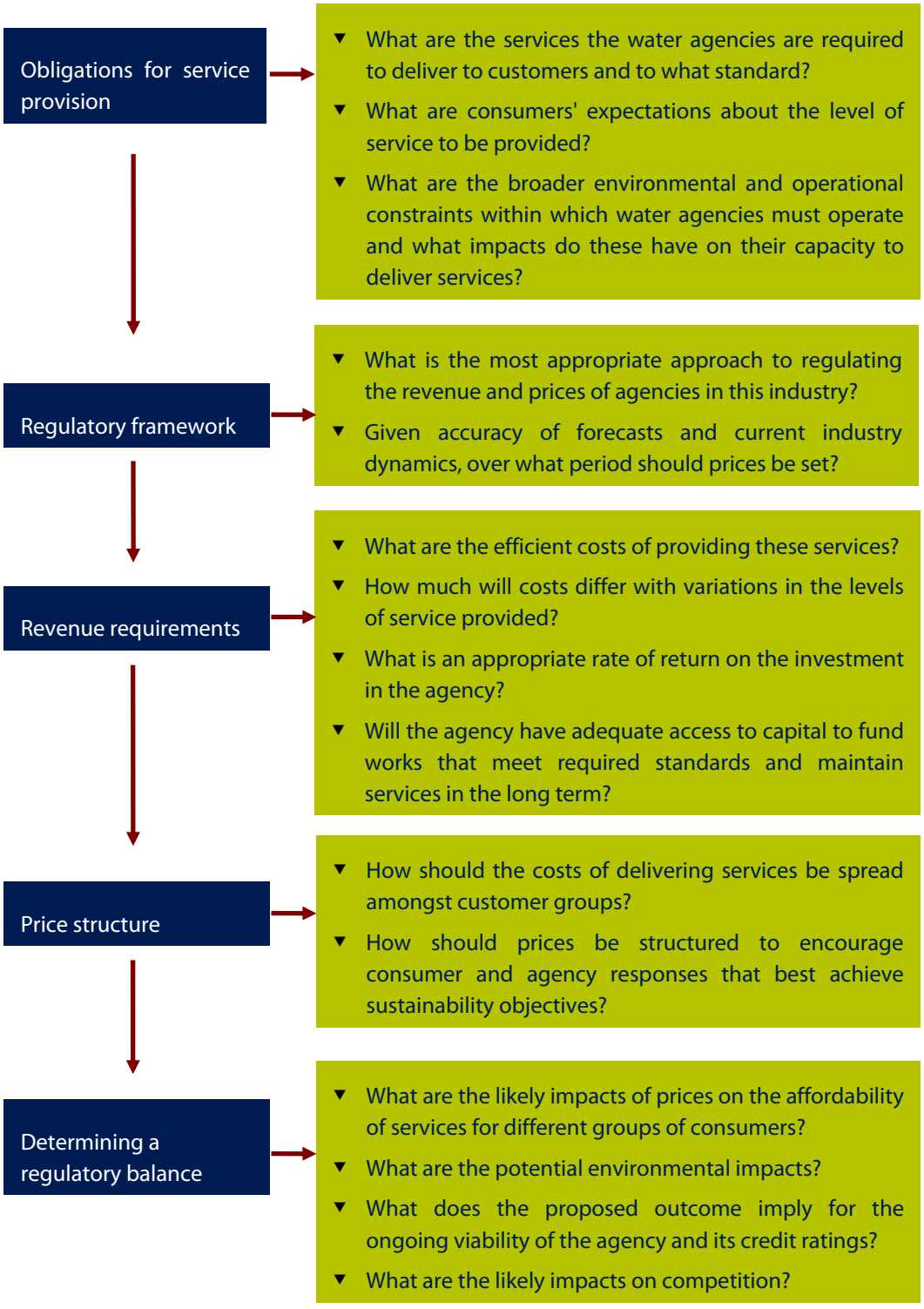
5 Under section 11 of the IPART Act, IPART must consider a broad range of issues, including a number of social and agency-specific concerns.

6 IPART may also have regard to any other matters it considers relevant. The section 15 requirements are listed in full in Appendix B.

7 The NWI is built on the principles established in the 1994 COAG Water Reform Framework.

As it does for all pricing determinations, IPART will consider a number of issues before deciding on its approach for the determination of prices for Country Energy. Relevant issues are summarised in Figure 1.1.

Figure 1.1 Issues to consider when setting prices



Country Energy's water operations are considerably smaller than the other water agencies regulated by IPART. Consequently, IPART will consider alternative approaches for regulating Country Energy than those usually adopted. IPART will need to take into account the limited resources that Country Energy has available to devote to this pricing review, the potential that only a limited amount of data on operations will be available, and whether the cost of an extensive review will be justified by materially better pricing outcomes. It is likely that IPART will adopt processes for determining Country Energy's prices that are simpler and less intrusive than those that it has utilised for larger water utilities.

1.2 The review process

In conducting its review, IPART will rely on its own research and analysis and public consultation. As part of the consultation process, IPART invites submissions to this review. This Issues Paper has been prepared to assist in identifying and understanding the key issues for the review and to encourage stakeholder comment. IPART will also require Country Energy to complete an Information Return which will provide much of the detail data IPART requires to conduct modelling of Country Energy's financial position.

The Issues Paper raises a range of issues and questions – both throughout the paper and in a consolidated list provided in section 1.3.1 - on which IPART seeks particular comment. However, stakeholders are encouraged to raise any other issues that they believe are relevant to the review. Details on how to make submissions are provided at the front of this paper. In addition, this paper identifies information that IPART requires Country Energy to provide.

IPART will also hold a public hearing to provide a further opportunity for stakeholders to understand the issues involved.[8]

Following this consultation, IPART will release a draft report and determination, and invite stakeholders to comment. It will then consider these comments before making its final determination and releasing its final report.

An indicative timetable for the review is set out below.

Table 1.1 Indicative review timetable

Task	Timeframe
Release Issues Paper	23 July 2009
Receive submission from Country Energy	11 September 2009
Receive public submissions	9 October 2009
Public hearing	November 2009
Release draft report	March 2010
Receive submissions to the draft report	April 2010
Release final report	June 2010

Note: Please note that these dates are indicative and may be subject to change.

8 Public hearing scheduled for November 2009.

IPART will endeavour, as far as possible, to reach agreement with Country Energy on the information that should be provided for the review and the date by which it should be provided. This should ensure that the demands placed on Country Energy are not unreasonable and minimise the risk that the review will be delayed.

Country Energy should provide information to justify the proposed level and structure of prices. This will enable IPART to analyse the proposals and allow stakeholders to make an informed response. The submission should also identify the potential customer impacts of the proposals, the distribution of these impacts and options explored by Country Energy to mitigate or minimise these impacts.

1.3 Purpose and structure of this Issues Paper

To assist stakeholders in making submissions, this paper explains how the review will be undertaken, provides background information, and outlines the issues on which IPART particularly seeks comments. The paper is organised as follows:

- Chapter 2 provides an overview of the role of Country Energy and its regulatory framework.
- Chapter 3 provides an overview of the approaches that IPART may adopt to determine Country Energy's prices.
- Chapter 4 discusses the role that revenue and costs may have in determining Country Energy's prices.
- Chapter 5 outlines matters to be considered in determining prices including determining the length of the upcoming determination period, service quality standards, forecasting customer numbers and sales, price structures, and considering the potential impacts on customers of any price changes.

1.3.1 List of Issues for stakeholder comment

To assist in identifying and understanding the key issues for this review, this Issues Paper has sought comment on the following issues, which are explained and discussed throughout the report (see page numbers listed below). However, stakeholders are free to raise and discuss any other issues that they believe are relevant to this review.

IPART seeks comments on:

1	What are customers' needs in the provision of water and sewerage services?	8
2	What is the most appropriate suite of mechanisms for IPART to adopt to fix Country Energy's maximum prices for water and sewerage services?	17
3	Country Energy's projected operating expenditure as outlined in its submission (due 11 September 2009)	18
4	Country Energy's projected capital expenditure program as outlined in its submission (due 11 September 2009).	19
5	Country Energy's asset management framework, and the relationship between its asset management framework and capital expenditure program.	19
6	Country Energy's proposed methodology for the calculation of depreciation, assessment of asset lives and the assumptions used to determine these.	19
7	Subsidies and contributed assets received by Country Energy.	20
8	The length of the determination period that should apply for this determination.	21
9	Is Country Energy compliant with its regulatory obligations and what are the implications for prices of compliance with current and proposed obligations?	22
10	Country Energy's projected customer numbers and sales (as outlined in its submission).	23
11	The appropriate level and structure for Country Energy's water and sewerage prices including views on the current inclining block tariff structure.	23
12	The appropriate levels and structures of charges for Country Energy's treated effluent water, chlorinated water, untreated water, trade waste, and ancillary and miscellaneous services.	23
13	The impact of Country Energy's proposed prices (as outlined in its submission) on customer groups.	23
14	What contribution should future charges levied on water and sewerage customers make to the cost of service provision and what are the implications for service levels and social impacts?	23

2 The role of Country Energy and its regulatory framework

In the absence of competitive markets, the prices for water and related services charged by Country Energy are to be regulated to ensure that the appropriate economic, social and environmental objectives are achieved.

This chapter outlines the role and functions of the water division of Country Energy and its broader regulatory framework.

2.1 The role of Country Energy

Country Energy[9] provides water services to a population of over 20,000 in Broken Hill, Menindee, Sunset Strip and Silverton. It also provides sewerage services to Broken Hill. Country Energy provides water services to approximately 11,000[10] properties and sewerage services to approximately 10,000 properties.[11]

Country Water's (as part of Country Energy's Networks and Infrastructure Division) stated objectives in providing water and sewerage services are to[12]:

- Provide water and sewerage services that meet customers' needs for reliability, and environmental performance;
- Maintain a water and sewerage system that is safe for the community, customers and employees; and
- Minimise the costs to Country Energy and consequent impacts on pricing for its customers.

9 Country Energy was formed on 1 July 2001 by the merger of three New South Wales electricity distributors, Advance Energy, Great Southern Energy and NorthPower. Country Energy is incorporated under the *State Owned Corporations Act 1989*. See Country Energy, *Annual Report 2006-07*, 18 December 2007, p 72. Country Water was formed as an operating division of Country Energy in 2005 following a merger between Country Energy and Australian Inland (the former operator of Broken Hill's water and sewerage services). Source: Country Energy, 6 August 2008.

10 National Performance Report 2007/08, p 77

11 Approximately 95 per cent of Country Energy's customers are located in Broken Hill. Source: Country Energy, 6 August 2008.

12 Country Water's website at www.countrywater.com.au

The population of Broken Hill has declined significantly over the last thirty years[13]. Over one third of Country Energy's customers are on fixed incomes which significantly impacts on their capacity to pay any substantial increase in charges.

IPART seeks comments on the following

1 What are customers' needs in the provision of water and sewerage services?

Country Energy's service area is the most arid in NSW and experiences extreme climatic variations including more frequent drought than coastal areas.[14] These arid operating conditions, combined with the age of critical infrastructure, present key water quality challenges for Country Energy.[15]

Country Energy exercises its water supply functions under the *Water Management Act 2000*.[16] Unlike other metropolitan water agencies regulated by IPART, for example, Sydney Water and Hunter Water, Country Energy does not have an operating licence issued by the Minister that sets targets, outlines compliance requirements and establishes a customer contract.[17] Country Energy's operations have been subject to the Department of Water and Energy's *Best-Practice Management of Water Supply and Sewerage Guidelines*[18] which provide guidance for achieving best practice under the following 6 criteria:

- Strategic Business Planning
- Pricing
- Water Conservation
- Drought Management
- Performance Reporting
- Integrated Water Cycle Management.

Now that the prices of water and sewerage services provided by Country Energy are to be regulated by IPART, IPART's regulatory decisions will take precedence over DWE guidelines on pricing. [19]

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13 Broken Hill Council: *Community Strategic Plan 2007/2022*, p.8

14 The mean rainfall for Broken Hill is 253 mm per annum, compared to 1215mm per annum for Sydney. Source: Bureau of Meteorology website: www.bom.gov.au on 23 July 2008.

15 For example, low water quality during the 2002-03 drought resulted in the Mica Street and Menindee water treatment facilities being unable to treat available water supplies to Australian Drinking Water Guidelines (ADWG) Standards. Country Energy, 6 August 2008.

16 Department of Water and Energy (DWE) website: www.dwe.nsw.gov.au.

17 Note that Gosford Council and Wyong Council do not have operating licences either. Instead, under the *Local Government Act 1993*, the Councils are required to develop annual management plans with respect to their activities.

18 See Department of Water and Energy (DWE) website: www.dwe.nsw.gov.au.

19 Source: Country Energy , 6 August 2008; Country Energy website: www.countrywater.com.au; Country Energy, *Annual Report 2006-2007*, 18 December 2007, pp 28-31; and Water Services Association of Australia and National Water Commission, *National Performance Report 2006-07 – urban water utilities*, 2008, p 92.

Country Energy's main source of water is the Menindee Lakes Scheme on the Darling River, which is 130 kilometres from Broken Hill. Country Energy is licensed to extract approximately 10GL of high security water per year from this scheme. Water is pumped over 116 kilometres and lifted 270 metres to the Mica Street treatment plant via 7 water pumping stations.

The Murray Darling Basin Authority is responsible for the management of the Menindee Lakes Scheme except during drought (when the total storage in the scheme falls below 480 GL and until it returns to 640 GL) when the management of the scheme rests with the NSW Department of Water and Energy (DWE) through State Water. The quality of water from the scheme is highly variable and requires substantial treatment. Reduced water levels as a result of ongoing drought conditions have significantly impacted water quality.

There are also three local sources of water which are managed by Country Energy:[20]

- **Stephens Creek Reservoir**, which has a capacity of 19,000 ML[21] and is located 16 kilometres from Broken Hill. This reservoir receives water from its own catchment and also acts as terminal storage for water from the Menindee Lakes Scheme before it is pumped to the Mica Street water treatment plant. The reservoir has a large surface area and shallow depth resulting in historically high evaporative losses. A levy that was placed in the reservoir in 2003 has significantly reduced the evaporative losses.
- **Umberumberka Reservoir**, which has a capacity of 8,000 ML and is located 28 kilometres from Broken Hill. This reservoir has the best quality water of the three reservoirs and is a deep and efficient storage facility. However, it has received historically unreliable catchment falls, impacting its capacity to deliver a reliable and sustainable source of water.
- **Imperial Lake**, which has a capacity of 670 ML and is used as emergency storage only. It collects water from its own catchment, including part of Broken Hill's urban area. The existing level of stormwater reuse in the area is high, with more than 75 per cent of urban run-off being harvested and stored for emergency use in the reservoir. Water can also be transferred to Imperial Lake from the other two reservoirs via the Mica Street water treatment plant. Water quality is highly variable because of its urban catchment and high concentrations of salt, organics and metals, which significantly increases treatment costs.

Water supply from these local water storages is highly variable and can be critical in times of drought. High evaporation rates also have a significant impact on water security. For instance, it is estimated that up to 600 ML per day can be lost from the Menindee Lakes Scheme and 8 ML from the Umberumberka Reservoir.

[20] Groundwater does not currently contribute to supply, although Country Energy is currently investigating groundwater resources in Menindee, Stephens Creek and Umberumberka.

[21] Country Water's website at www.countrywater.com.au

Average annual residential water consumption was 284kL[22] in 2007/08, compared with 317kL in 2005/06 – a reduction of 10 per cent.

Although mandatory water restrictions do not currently apply, water savings have been achieved as a result of a number of demand management and water efficiency programs, including the Sustainable Schools Program, H_2Overhaul[23] and the Outback Oasis business sustainability program and the implementation of two-tiered pricing.

Water demand in summer is driven by the use of evaporative air coolers and outdoor water use. As a result of decades of mining in Broken Hill, water is also required to grow and maintain plant groundcovers (such as lawn grasses) in order to contain the lead that has accumulated within soils and dispersed in dust.[24]

Country Energy's other water supply assets include two water treatment plants,[25] seven water pumping stations, 11 water service tanks and 362 kilometres of water mains (comprising 144 kilometres of trunk mains and 218 kilometres of reticulation).[26]

2.1.1 Sewerage functions[27]

Country Energy has two wastewater treatment plants (WWTPs) – Wills Street and South Broken Hill. Sewage is treated to primary, secondary and tertiary levels and further disinfection is provided via an ultra violet treatment system at the Wills Street plant. Sewage is piped through a network of 195 kilometres of mains (20 kilometres of rising mains and 175 kilometres of gravitation mains) and 11 pumping stations to the WWTPs.

The average amount of sewage collected per property was 136 kL in 2007/08 compared to 148 kL in 2005/06. Country Energy also supplied 649 ML of treated effluent water from the Wills Street WWTP in 2007/08.[28]

22 *National Performance Report 2007/08*, p 75

23 The program was wound up in October 2008.

24 Lead exposure can be a serious health issue, particularly for children.

25 A reverse osmosis (desalination plant) was also commissioned in 2004 to treat emergency water supplies. Although the plant has not been required to date, it can be commissioned during drought and poor water quality events.

26 Country Energy, 6 August 2008

27 Source: Country Energy, 6 August 2008; and Water Services Association of Australia and National Water Commission, *National Performance Report 2006-07 – urban water utilities*, 2008, p 92.

28 *National Performance Report 2007/08*, p 75

2.2 Regulatory framework

IPART's role as the economic regulator of Country Energy's water service functions forms only one component of its broader regulatory framework. Country Energy's primary regulators include:

- **IPART**, which is now responsible for setting maximum prices that can be charged by Country Energy for its monopoly water and sewerage services.
- **Department of Water and Energy**, which has primary responsibility for the management of water resources throughout NSW. DWE licenses the extraction of water from surface and groundwater sources under the *Water Management Act 2000* and the *Water Act 1912*.[29] DWE also oversees the performance of Local Water Utilities (LWUs) using a 'light handed regulatory framework' based on the requirements of the *Best-Practice Management of Water Supply and Sewerage Guidelines*.[30]
- **Department of Environment and Climate Change (DECC)**, which is responsible for monitoring and regulating wastewater discharges from Country Energy's sewerage system. DECC issues Environment Protection Licences under the *Protection of the Environment Operations Act 1997*.
- The **Dam Safety Committee**, which is responsible for formulating measures to ensure the safety of dams and maintain surveillance of prescribed dams, including those under the management of Country Energy.[31] Under the *Dams Safety Act 1978* and the *Mining Act 1992*, the Dam Safety Committee's main objective is to ensure that all 'prescribed dams' in NSW are in such condition as not to pose an unacceptable danger to downstream residents and property, or to adversely affect the public welfare and environment.[32]
- **NSW Health**, which is responsible for regulating the quality and safety of Country Energy's drinking water.[33]

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29 Depending on whether a water sharing plan is in place for that water source.

30 The guidelines are the key driver for the reform of planning and management and for continuing performance improvement by LWUs. All LWUs are required to substantially comply with the guidelines by June 2009. See Water Services Association of Australia and National Water Commission, *National Performance Report 2006-07 – urban water utilities*, 2008, p 70.

31 The Stephens Creek Reservoir, Umberumberka Reservoir and Imperial Lake are prescribed dams under the *Dam Safety Act 1978*.

32 Dams Safety Committee, *DSC1 – General Information*, April 2005, available from: www.damsafety.nsw.gov.au.

33 Country Energy publicly reports on compliance with the *Australian Drinking Water Guidelines 2004* every six months. Source: Country Energy, 6 August 2008.

3 Determining the pricing approach

In determining prices, IPART's responsibility is to meet the requirements of the IPART Act. IPART is, however, also mindful of principles and agreements established at state and national levels.

Such agreements include pricing principles endorsed by the Council of Australian Governments (COAG).[34] COAG has issued guidelines to the effect that prices for water and related services should:

- On the one hand not recover more than the operational, maintenance and administrative costs, externalities, taxes, provision for the cost of asset consumption and the cost of capital (referred to as upper bound pricing).
- And on the other hand recover at least the operational, maintenance and administrative costs, externalities, taxes, interest on debt, dividends (if any) and make provision for future asset refurbishment/replacement. An annuity approach can be used to determine the medium to long term cash requirements for asset refurbishment/replacement where it is desired that the service delivery capacity be maintained (lower bound pricing).

The National Water Initiative adopted by COAG[35] requires the movement towards upper band pricing for rural and regional water suppliers, where practical.

Under its Act, IPART determines maximum prices. Section 14 of the IPART Act 1992 gives IPART considerable flexibility in the method it adopts to fix maximum prices. Section 14 states:

> (1) A determination of the Tribunal of the maximum price for a government monopoly service may fix that price in any manner the Tribunal considers appropriate, including the following:
>
> (a) by fixing an average price for a number of categories of the service,
>
> (b) by fixing a percentage increase or decrease in existing prices,
>
> (c) by fixing an average percentage increase or decrease in existing prices for a number of categories of the service,
>
> (d) by fixing a specified price for each category of the service (if any other manner is not considered appropriate).

34 2004 NCP water reform assessment framework, Appendix 1

35 NWI, *Best Practice Water Pricing and Institutional Arrangements*, clause 66 (v)

(2) The Tribunal may fix such a price by reference to:

(a) a general price index (such as the Consumer Price Index), or

(b) the government agency's economic cost of production, or

(c) a rate of return on the assets of the government agency.

To determine Country Energy's prices, IPART will consider a number of pricing approaches. IPART's aim is to adopt an approach that is appropriate for Country Energy, its customers and its stakeholders. The approach will need to meet the requirements of the IPART Act and have regard for any principles and agreements concerning water pricing that have been developed by state and federal bodies.

3.1 Possible approaches to determining prices

Generally speaking, IPART seeks to:

- set prices to enable the service provider to recover their efficient costs of service provision where that level of service provision is defined in regulatory requirements or supported by customers willingness to pay (where the level of service provision is in excess of the regulatory requirements) and
- structure prices to encourage the efficient use of the services.

There are essentially two principal approaches for determining prices. The first assumes that existing prices and price levels are efficient and cost reflective. Each price adjustment merely adds additional or new costs onto existing prices to ensure that those new costs are recovered from the future sale of services. The use of cost indexes to adjust prices to reflect movements in costs is one example of this approach.

The other common approach is a cost based approach where the amount of revenue needed is built up at each price review on the basis of the costs expected to be incurred. Once the revenue requirement is established prices for the various services provided are determined to achieve the revenue requirement.

The following sections explain the bases of some of the approaches available to IPART to set prices.

3.1.1 Indexing adjustments to current prices

The indexing method involves increasing existing prices on the basis of the movement in an index. Some of the ways this can be done are:

- forecast movements in the cost of the key inputs and increase prices to reflect these increases.

  As far as IPART is aware cost indexes that might be used do not exist. Consequently, under this approach IPART would need to develop either an index

specific to Country Energy or to the water industry more generally. IPART has developed and maintained such indexes for some other industries that it regulates.

- allow Country Energy to increase existing prices by actual movements in key cost inputs (lagged by one year) through an adjustment formula specified in the determination.

  Under this approach IPART would need to specify the key cost inputs to be collected and used and the weighting to be assigned to them. The weightings would need to be reviewed at each new price determination as the combination of inputs by Country Energy to provide water and sewerage services can be expected to change over time as technologies change and the composition of Country Energy's capital stock changes. Offsets could be applied to encourage greater efficiency in the provision of services by Country Energy.

- automatically adjust current prices by the percentage change in the Consumer Price Index with Country Energy required to demonstrate why any additional price increase is justified with specific reference to service levels or input costs.

  This approach can generally be the simplest to apply. However, its suitability as a price setting tool is heavily dependent on how well Country Water's costs of providing water and sewerage services mirror movements in the CPI. If movements in the CPI are not a good proxy of movements in Country Energy's costs, periodic resetting of the base will be required. This reset process will necessarily have to have regard to Country Energy's underlying costs.

3.1.2 Cost based approach

IPART has generally adopted cost based approaches for the larger water utilities it regulates. They involve determining a revenue requirement based on allowed costs and then prices are set with regard to that particular revenue level.

Approaches to determining the revenue requirement

There are three generally recognised cost based approaches that can be applied to determining the revenue requirement. These can be described as:

- A cash based approach.
- An asset maintenance or annuity approach. This approach is also known in Australia as lower bound pricing.
- A rate of return approach. This approach is known as upper bound pricing.

Under all three approaches, the water utility is granted sufficient revenue each year to recover their annual operating and maintenance costs such as salaries and wages, chemicals, energy, materials etc. The differences in the approaches arise from the way in which they treat capital expenditure requirements.

A cash based approach

Under a Cash Based Approach the water agency, in addition to collecting sufficient revenue to defray operating, maintenance and administration expenses, also recoups sufficient revenue to cover the costs of principal and interest repayments on funds borrowed to undertake capital programmes. In some cases additional funds might also be collected and set aside in reserves to provide for the ultimate replacement and refurbishment of assets as they reach the end of their useful lives.

An asset maintenance or annuity approach – Lower Bound Pricing

The Asset Maintenance or Annuity Approach is similar to the Cash Based Approach but differs in the manner in which it makes provision for the ultimate replacement and refurbishment of assets. This approach aims to recover at least the operational, maintenance and administrative costs, externalities, taxes, interest on debt, dividends (if any) as well as making provision for future asset refurbishment/replacement through the application of an annuity or sinking fund. An annuity or sinking fund is merely a way of making a precise calculation to ensure that reserves are established and built up through time to ensure that sufficient money is available to replace an asset at the end of its useful life. Under this approach the current generation of users of an asset are also responsible for paying for its ultimate replacement. An annuity approach can be used to determine the medium to long term cash requirements for asset refurbishment/replacement where it is desired that the service delivery capacity of the assets be maintained.

A rate of return approach – Upper Bound Pricing

Upper Bound Pricing involves the recovery of operational, maintenance and administration costs, externalities, taxes, provision for the cost of asset consumption and the cost of capital calculated using the weighted average cost of capital.

The cost of asset consumption is also known as depreciation and is designed to allow the water business to recoup through charges the cost of that part of an asset consumed or used up in delivering water and sewerage services in a particular period. Allowing for depreciation enables the water business to maintain intact the value of the capital it has invested in its business.

The cost of capital or rate of return is intended to not only defray the cost of interest on any debt held but also to provide a fair return on the equity the owners of a business have invested in it. The return on equity should be commensurate with the returns of similar companies in the industry facing similar risks. The Weighted Average Cost of Capital is a way of calculating the return a firm in a particular industry should be able to expect.

Approaches to Tariff Setting

Country Energy provides a number of services to different customers. Most residential customers receive water and sewerage services and separate tariffs or charges are set for each. Water charges are in turn made up of two components – a fixed service charge and a usage charge which varies with the amount of water used. Other customers may receive treated effluent and trade waste services.

Once IPART has decided on the pricing approach it will adopt and the amount of revenue to be collected by tariffs, the next step is to decide on the most appropriate means of setting the various tariffs or prices for the individual services that Country Energy provides.

Revenue cap

There are several approaches to setting and regulating tariffs for individual services. The first is to merely establish a revenue cap or the maximum amount of revenue that Country Energy would be allowed to collect in any period. Under this approach IPART would determine the maximum amount of revenue that Country Energy can receive in each year of the determination period. Country Energy would then determine its own tariffs to recover the maximum allowed revenue. An adjustment mechanism is usually developed to take account of differences in those years when the actual revenue earned by Country Energy differs from the maximum set by IPART. This form of price regulation has been used by IPART in the electricity industry.

Weighted average price cap

Under a weighted average price cap, a limit or cap is set on the maximum by which the average price of services can increase. In addition, limitations can be set on the amount by which some or all individual prices within the group of prices can increase during the regulatory period. Regulated entities then have the freedom to rebalance prices (increase or decrease individual prices), so long as the weighted average of the prices is less than or equal to the maximum average price, and they comply with any limitations imposed by IPART.

To calculate the weighted average price, a weight is applied to each individual price category, and then these weighted prices are summed in order to calculate the weighted average price. The weights are usually based on forecasts of sales volumes.

Fixing specified prices for each service

This form of price regulation tends to be the most intensive from an IPART viewpoint and requires that IPART determine a particular price for each particular service for the term of the price path. Under this approach IPART would set a water service charge, a sewerage service charge, a water usage charge, trade waste charges etc for each of the years covered by the pricing determination. This is the approach

that IPART has adopted for the major urban water utilities in the Sydney, Hunter and Central Coast regions of NSW.

IPART seeks comments on the following

2 What is the most appropriate suite of mechanisms for IPART to adopt to fix Country Energy's maximum prices for water and sewerage services?

4 Revenue requirement and expenditure proposals

A key element in the process of determining prices under any cost based approach is deciding upon the amount of revenue that Country Energy needs each year to efficiently meet its water and sewerage service obligations in the Broken Hill area. In other words, the revenue Country Energy earns should be sufficient to pay for the costs it incurs in providing services to its customers.

Section 15 of the IPART Act specifies a range of cost elements that IPART is to have regard to when making pricing determinations. These elements include the cost of providing the services, the cost to renew or increase assets, and the cost of borrowings and fulfilling dividend requirements. Section 15 also requires that IPART has regard to the provision of an appropriate rate of return on assets employed.

4.1 The cost of providing services

A key component of servicing costs is the provision of sufficient revenue to meet the operation, maintenance and administration costs of the water and sewerage services provided by Country Energy. This is generally referred to as operating expenditure. IPART will need to determine the efficient costs that Country Energy will incur in operating the business effectively. Therefore, Country Energy will need to provide information on its projected operating expenditure for the upcoming determination period together with the expected outcomes from that expenditure, and on its actual operating expenditure for the 2008/09 year.

IPART seeks comments on the following

3 Country Energy's projected operating expenditure as outlined in its submission (due 11 September 2009)

4.2 The cost to renew or increase assets

The cost of renewing assets together with the cost of building new assets is generally referred to as capital expenditure.

Capital expenditure incurred in a period is not normally recouped through prices in that period alone. Capital expenditure is often funded from borrowings or retained earnings and recovered over time through the prices of services. IPART will look at

the efficiency and prudency of Country Energy's capital expenditure before allowing it to be passed through to prices.

Generally, pricing regulators calculate two components to determine how capital expenditure is recovered. One component is the return of capital, also known as depreciation. The amount included in a year's revenue requirement for depreciation reflects the amortisation of the capital invested over the life of the assets. In its submission, Country Energy will need to explain the methodology it proposes for the calculation of depreciation, and an assessment of asset lives for asset classes and the assumptions used to determine these.

The other element is a return on capital or a rate of return on assets. The return on capital represents the opportunity cost of capital invested in Country Energy by its owner. If the return on capital is not sufficient, then organisations will invest their capital in other areas where the return is greater. It therefore ensures efficient investment continues into the future for the maintenance and growth of the infrastructure system. As well, if the return on capital is too low then the price of water will be too low. Lower than appropriate water prices will result in customers consuming more water and wasting it relative to its true value.

As part of the submission process, IPART seeks capital expenditure information from Country Energy. This information should outline proposed capital expenditure, as well as expenditure for the 2008/09 financial year, together with the expected outcomes to be achieved by the capital expenditure in the upcoming determination period. This information should be included in Country Energy's submission to IPART and will therefore be available to other stakeholders to comment on when preparing their own submissions.

IPART considers sound asset management practices to be critical for maintaining long-term system performance standards in the most effective manner. For this reason, IPART seeks evidence in Country Water's submission that Country Energy has well-developed and sound asset management practices and plans in place, and that capital expenditure programs are based on a robust asset management framework. Additionally, IPART will be seeking assurance that the critical infrastructure of the business is not being run down.

IPART seeks comment on:

4 Country Energy's projected capital expenditure program as outlined in its submission (due 11 September 2009).

5 Country Energy's asset management framework, and the relationship between its asset management framework and capital expenditure program.

6 Country Energy's proposed methodology for the calculation of depreciation, assessment of asset lives and the assumptions used to determine these.

4.3 Adjustments for contributions from other sources

Many government agencies recover their service costs through charges levied on their customers in combination with cash injections from other sources such as government. IPART notes that the water and sewerage operations of Country Energy are subject to such NSW government subsidies. The subsidy from NSW Government is the result of an agreement between NSW Government and Country Energy which runs out in 2013. The original subsidy was set in 2002 and is increased by inflation each year.

IPART will need to factor in any subsidies before it can determine the appropriate prices for Country Energy to charge for its services. In its submission, IPART seeks information from Country Water on the value and timing of subsidies received from government, as well as any contributions received from other sources.

There are occasions where the NSW or Federal Governments contribute or transfer assets to water agencies. The value of government-contributed assets should be accounted for in determining Country Energy's revenue requirement and prices. Therefore, in providing information on its assets, Country Energy should clearly identify the value and timing of any contributions from government or other sources.

IPART seeks comments on the following

7 Subsidies and contributed assets received by Country Energy.

5 Matters to be considered when determining prices

Once IPART has analysed the costs to be recovered through Country Energy's charges, the next step is to set prices to recover these costs. There are a number of matters that IPART may need to consider which will help it decide on the pricing approach to adopt and on the level and structure of the resultant prices.

For this review IPART will consider:

- the appropriate price path length
- service quality standards
- the appropriate forecast water sales and customer numbers to use for price setting purposes
- the appropriate price levels and structures for Country Energy's monopoly services, taking into account economic efficiency principles and Country Energy's revenue stability
- the potential impacts of the determination on Country Energy and its customers.

5.1 Length of price path

For this review, IPART will need to consider the appropriate length of the upcoming determination period. Given that this will be the first time that IPART has determined Country Energy's prices, IPART's decision will, in part, depend on the reliability of the forecasts submitted by Country Energy. If, for example, the expenditure profile can only be reliably predicted for one or two years, a short determination period may be more appropriate. However, IPART's aim is to set a longer price path so that Country Energy can have some surety in planning its future financial position.

IPART seeks comments on the following

8 The length of the determination period that should apply for this determination.

5.2 Service quality standards

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

The *Best-Practice Management of Water Supply and Sewerage Guidelines*[36] developed by the NSW Department of Water and Energy (DWE) provides guidance for Local Water Utilities in NSW regarding best practice management of water and sewerage services. Country Energy is required to have regard to the guidelines. The *NSW Water Supply and Sewerage Benchmarking Report* discloses water supply and sewerage performance indicators for all NSW water utilities, to enable each utility to monitor trends in its performance and to improve performance through benchmarking against similar utilities.[37] Performance is reported on the basis of social, environmental and economic performance indicators. In addition, the National Water Commission (NWC) has developed a set of performance indicators to be applied across water utilities throughout Australia.[38] Country Energy provides data to both these reporting entities. IPART will make use of these sources of performance monitoring when determining the prices that Country Energy can levy its customers.

Ideally, the amount that customers are willing to pay for a service is linked to the level of expected service quality. In determining Country Energy's prices, considerations for IPART include relating expenditure to service quality outcomes and ensuring an appropriate matching of service quality levels with customers' willingness to pay.

For this review, IPART will be seeking information from Country Energy on the drivers of its proposed expenditure program, and what the proposed expenditure will mean for service quality and performance generally.

IPART seeks comments on the following

9 Is Country Energy compliant with its regulatory obligations and what are the implications for prices of compliance with current and proposed obligations?

36 Department of Water and Energy (NSW Government), *Best-Practice Management of Water Supply and Sewerage Guidelines*, August 2007.

37 Department of Water and Energy (NSW Government), *2005/06 Water Supply and Sewerage - NSW Benchmarking Report*, 2007.

38 Water Services Association of Australia and National Water Commission, *National Performance Report 2006-07 – urban water utilities*.

5.3 Determining appropriate sales

Forecasting sales and customer numbers can be key factors in setting prices for utilities providing water and associated services. If sales and customer number forecasts are understated, customers will pay prices that exceed efficient levels, while unduly high forecasts may result in the water business not earning a sufficient revenue stream over any given determination period.

For past determinations for other water utilities, IPART has relied on detailed customer numbers provided by the water agencies, but has conducted some checks to ensure the robustness of the information.

Forecasting water sales can be more difficult and require significant analysis. This is due to the range of drivers that can impact on water demand, and the unpredictability or volatility of some of these factors. Factors that can influence water sales include population growth (or decline), the structure and level of water prices, weather conditions, water restrictions, demand management programs and the development of additional or alternative water sources.[39]

For this review, Country Energy will need to provide forecasts of customer numbers and sales for its regulated services, and its methodology and the assumptions underpinning these forecasts. If Country Energy is proposing to introduce a new price structure or increase prices, the implication of consumption forecasts should be separately identified. IPART will assess the forecast sales submitted by Country Energy.

Given the inherent variability of water sales from year to year, IPART will also consider mechanisms to deal with any substantial changes in the demand forecasts.

IPART seeks comments on the following

10 Country Energy's projected customer numbers and sales (as outlined in its submission).

5.4 Determining the appropriate level and structure of prices

If IPART decides that it will determine prices for the various services provided by Country Energy it will have regard to a range of matters when making its determinations, including how price levels and structures impact on economic efficiency, ecologically sustainable development, the regulated businesses and their customers. This diversity of factors may require IPART to trade-off or balance different impacts or outcomes, for example customer affordability and economic efficiency.

39 In the 2005 review for the metropolitan water agencies, IPART engaged McLennan Magasanik Associates (MMA) to conduct a review of the agencies' forecast water sales.

5.4.1 Water and sewerage services

Country Energy's customers currently pay a fixed and volumetric charge for water and sewerage services (although residential customers pay a fixed charge only for sewerage services). Appendix C sets out the current charges applying to residential and non-residential customers.

Perilya Limited (Perilya) - which owns and operates the Broken Hill zinc, lead and silver mine[40] – currently pays a price for water services that is the result of an agreement between the NSW Government, Country Energy and Perilya. Charges and minimum payments for Perilya were determined in 2002 and are increased by inflation each year. The agreement runs out in 2013.[41] Country Energy also supplies a small number of customers with treated effluent water. The prices for these customers result from a contractual agreement with Country Energy. IPART's policy is to not interfere in prices that are the result of a negotiated contractual process. However, IPART would be concerned if there are cross subsidies between the contracted customers and the general customer base leading to a net loss in economic efficiency.

Fixed and volumetric charges

Where IPART determines specific prices it has generally favoured a two-part approach to water and sewerage tariffs. That is, residential and non-residential customers pay for their water and sewerage services through two charges: a fixed service charge and a variable usage charge that depends on the volume of water they use.[42] This is similar to the pricing approach already used by Country Energy.

The benefit of a two-part tariff approach is that it can provide the water agency with some revenue stability through the fixed charge, but also provides a signal to consumers to use water efficiently through the volume-based usage charge.[43] The reasoning behind the two-part tariff approach to monopoly pricing, where the usage charge covers the marginal cost of supply and the fixed charge acts as a balancing item to cover the remainder of the agency's efficient costs, is outlined further in Box 5.1 below.

40 Perilya acquired the Broken Hill mine in May 2002. See: www.perilya.com.au.

41 Perilya currently pays an annual water supply access charge of $1.2068 million and a water usage charge of $1.9593/kL for all treated water usage (with a minimum payment of $1.45 million). See: New South Wales Government Gazette No.93 (26 June 2009) pp 3640-3643 and www.countrywater.com.au.

42 Although Hunter Water is the only water agency regulated by IPART that currently charges residential customers a usage price for sewerage.

43 For a discussion on efficient pricing of monopoly services and the benefits of two-part tariffs, see: IPART, *Water scarcity: Does it exist and can price help solve the problem?*, January 2008, pp 3-5.

Box 5.1 Efficient pricing of monopoly services[a]

Economic theory suggests that an efficient price structure is one that encourages an efficient allocation of resources in the economy by the signals that it sends to consumers and producers. This is achieved by setting prices at the marginal cost of supply, where 'marginal cost' is the increase in total costs resulting from the production of one more unit of output.[b]

The marginal cost of water supply is largely dependent on the capacity of large, indivisible capital investments such as dams, desalination plants, treatment plants and transmission pipelines. Once a utility has incurred the cost of building the infrastructure, the marginal cost of supplying water is much lower than the average cost of supply.[c] This means that, if prices are set at marginal cost, the utility may not recover its costs. This will impact on the utility's incentive to invest in the business in the future.

For this reason, it is generally accepted that pricing of monopoly services is efficient if it meets the following objectives:

- it signals to consumers the costs imposed (or avoided) if they increase (or reduce) their consumption by a small amount
- it allows utilities to recover the efficient cost of service provision and recovers these costs with the least harm to economic efficiency.

A two part tariff is generally considered the most efficient price structure for monopoly services, as it comprises a single usage charge (set at the marginal cost of supply) and a fixed charge (to recover the remaining revenue requirement). A fixed charge is considered an efficient means of recovering the difference between average costs and marginal costs, because it is levied independently of usage and does not distort the pricing signal set by the usage charge.

Notes

a IPART, *Review of prices for Sydney Water Corporation's water, sewerage, stormwater and other services from 1 July 2008, Determination and Final Report*, June 2008, Chapter 10.

b Marginal cost should include any costs or benefits accruing to third parties (i.e., those external to the transaction). These costs/benefits are known as externalities.

c Marginal cost can be low for long periods of time. However, as capacity is taken up, marginal cost increases as the next augmentation approaches (and may exceed average cost).

Block Tariff structures

In line with the NSW Government's *Best-Practice Management of Water Supply and Sewerage Guidelines*,[44] an Inclining Block Tariff (IBT) currently applies to Country Energy's water customers. An IBT is a rate structure in which the usage charge of each succeeding block of usage is charged at a higher unit rate than the previous

44 Department of Water and Energy (NSW Government), *Best-Practice Management of Water Supply and Sewerage Guidelines*, August 2007.

block(s).[45] Country Energy's tier 2 price is approximately 125 per cent higher than the tier 1 price and applies to consumption in excess of 100kL per quarter (except the summer quarter where the threshold is increased to 150kL).[46]

For the 2008 Sydney Water Determination, IPART decided to replace Sydney Water's IBT with a two-part tariff, comprised of a fixed service charge and a single usage charge for all units of consumption. The final report on that determination noted IPART's belief that this is appropriate where there is expected to be little or no water scarcity over the next few years.[47]

For this review, if IPART decides to fix prices it will need to consider the likely scarcity of water and the merits of having an IBT for Country Energy, relative to single block tariff usage charge.

Therefore IPART seeks the following information from Country Energy in its pricing submission:

- Country Energy's proposed prices (including level and structure) for its water and sewerage services over the upcoming determination period, and the justification behind those proposals, including supporting cost information.
- If Country Energy is proposing changes to price structures for water and sewerage services, any perceived transitional issues that may arise.
- Country Energy's water supply/demand balance over the short to medium-term, including the relative scarcity of water.
- Whether prices fully recover the costs of service provision and if not what is the extent of any subsidies paid by customers of Country Energy not in receipt of water services?

IPART seeks comments on the following

11 The appropriate level and structure for Country Energy's water and sewerage prices including views on the current inclining block tariff structure.

5.4.2 Charges for other services

As part of its determination for Country Energy, IPART will also need to consider charges for a number of other services, including the following:

45 The number of rate blocks and size and pricing of each block can vary and the usage charge is often accompanied by a fixed charge. Conversely, a Declining Block Tariff (DBT) is a rate structure in which the usage charge of each succeeding block of usage is charged at a lower unit rate than the previous block(s).

46 New South Wales Government Gazette No.93 (26 June 2009), pp 3640-3643.

47 IPART, *Review of prices for Sydney Water Corporation's water, sewerage, stormwater and other services from 1 July 2008, Determination and Final Report*, June 2008, Chapter 10.

- **Treated effluent water**, which is currently supplied to a small number of non-residential customers at a lower price than potable water.[48] Country Energy also has an effluent water usage charge for customers not paying a contract price.
- **Chlorinated water**, which is currently supplied to less than 200 customers in Sunset Strip and Silverton at a lower price than potable water. Chlorinated water is water that is disinfected, but not treated to potable standards.[49]
- **Untreated water,** which is currently supplied to some non-residential customers.
- **Trade waste services**, which are currently supplied to non-residential customers for the receipt and treatment of waste to standards acceptable for discharge.
- **Ancillary and miscellaneous services**, which include meter testing, water service disconnections and reconnections and plumbing inspections.[50]

For this review, IPART will be seeking Country Energy's proposals regarding these charges, including supporting cost information, and analysis of the impacts of these proposals on customer groups.

As stormwater drainage services are provided by Broken Hill City Council, stormwater charges will not be determined as part of this review.

Therefore IPART seeks information and explanation from Country Energy in its pricing submission on:

- Country Energy's proposed prices (including level and structure) for its other services, including treated effluent water, chlorinated water, untreated water, trade waste, and ancillary and miscellaneous services.
- Country Energy's justification behind these proposals.
- If Country Energy is proposing changes to price structures for its other services, any perceived transitional issues that may arise.

IPART seeks comments on the following

12 The appropriate levels and structures of charges for Country Energy's treated effluent water, chlorinated water, untreated water, trade waste, and ancillary and miscellaneous services.

48 Country Energy supplied 641 ML of treated effluent water from the Wills Street WWTP in 2006/07, the majority of which is supplied during summer. Source: Country Energy , 6 August 2008.

49 Country Energy advises that customers in Sunset Strip will soon receive potable water. Source: Country Energy , 6 August 2008.

50 A copy of Country Energy's current miscellaneous charges price list is available from: www.countrywater.com.au.

5.5 Assessing the impacts of pricing decisions

As part of this review, IPART will consider the potential impact of its pricing decisions on Country Energy, its customers and the environment.

IPART will consider the potential impact of its pricing decisions on Country Energy's residential, commercial and industrial customers. In particular, it will consider the affordability of water services for high and low water users and vulnerable customers. Of note is that approximately one third of Country Energy's residential customers currently receive the pensioner rebate for water and sewerage services.[51]

IPART will also consider the impacts of its pricing decisions on Country Energy's financial performance. Therefore IPART seeks information from Country Water in its pricing submission on the impact of Country Energy's proposed prices for its water, sewerage and other services on customer groups and on Country Energy's financial performance.

In terms of impacts on the environment, IPART proposes to allow Country Energy to recover, through prices, the costs that it efficiently incurs in meeting its environmental obligations (as determined by government and environmental regulatory requirements).

IPART seeks comments on the following

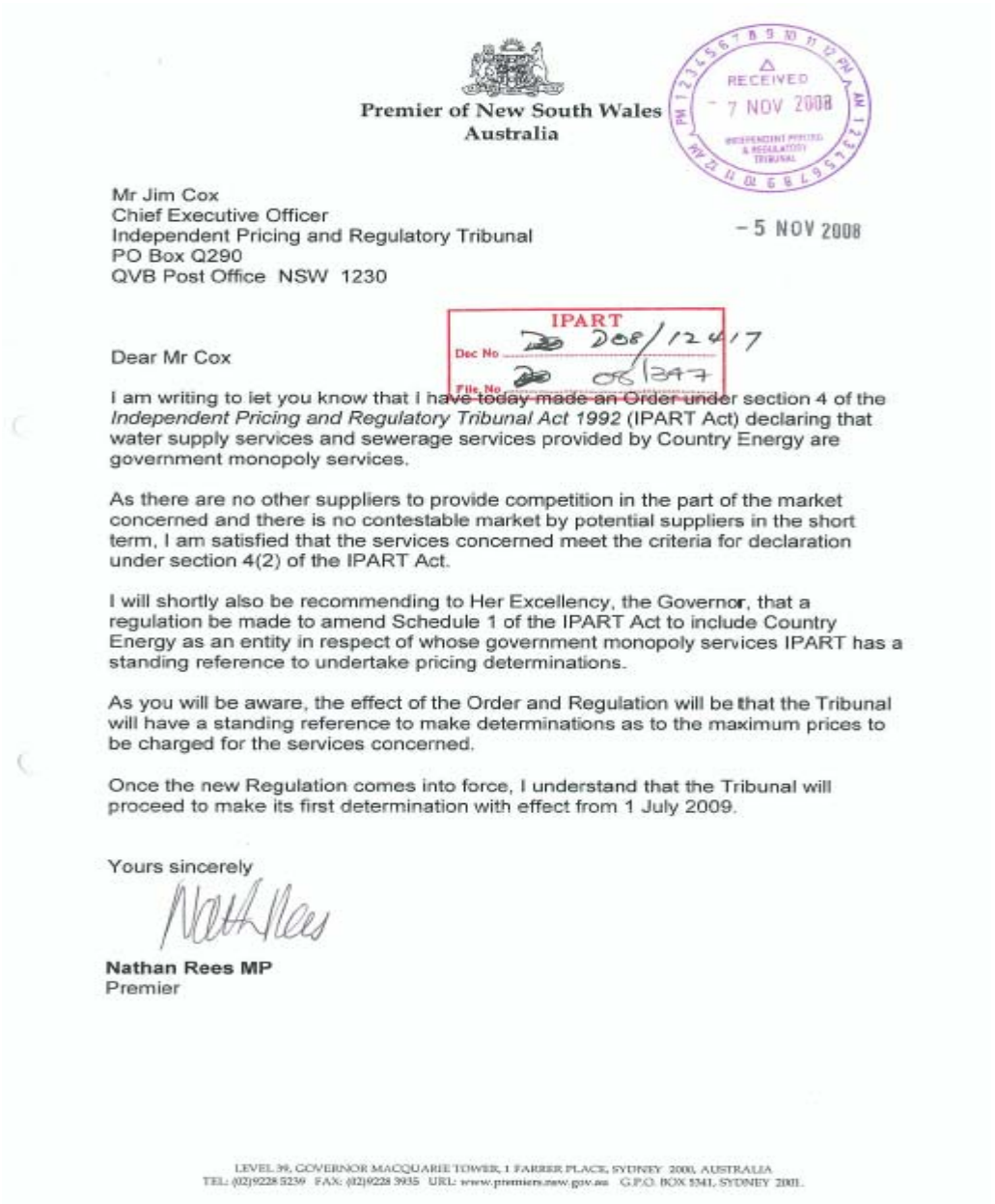
13 The impact of Country Energy's proposed prices (as outlined in its submission) on customer groups.

14 What contribution should future charges levied on water and sewerage customers make to the cost of service provision and what are the implications for service levels and social impacts?

51 Source: Country Energy , 6 August 2008.

Appendices

A Letter from the Premier of NSW



Premier of New South Wales
Australia

RECEIVED
7 NOV 2008
INDEPENDENT PRICING & REGULATORY TRIBUNAL

Mr Jim Cox
Chief Executive Officer
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

– 5 NOV 2008

IPART
Doc No 20 08/12417
File No 20 08/1347

Dear Mr Cox

I am writing to let you know that I have today made an Order under section 4 of the *Independent Pricing and Regulatory Tribunal Act 1992* (IPART Act) declaring that water supply services and sewerage services provided by Country Energy are government monopoly services.

As there are no other suppliers to provide competition in the part of the market concerned and there is no contestable market by potential suppliers in the short term, I am satisfied that the services concerned meet the criteria for declaration under section 4(2) of the IPART Act.

I will shortly also be recommending to Her Excellency, the Governor, that a regulation be made to amend Schedule 1 of the IPART Act to include Country Energy as an entity in respect of whose government monopoly services IPART has a standing reference to undertake pricing determinations.

As you will be aware, the effect of the Order and Regulation will be that the Tribunal will have a standing reference to make determinations as to the maximum prices to be charged for the services concerned.

Once the new Regulation comes into force, I understand that the Tribunal will proceed to make its first determination with effect from 1 July 2009.

Yours sincerely

Nathan Rees MP
Premier

LEVEL 39, GOVERNOR MACQUARIE TOWER, 1 FARRER PLACE, SYDNEY 2000, AUSTRALIA
TEL: (02)9228 5239 FAX: (02)9228 3935 URL: www.premiers.nsw.gov.au G.P.O. BOX 5341, SYDNEY 2001.

B Matters to be considered by IPART under section 15 of the IPART Act

In making determinations, IPART is required by section 15 of the IPART Act to have regard to the following matters (in addition to any other matters IPART considers relevant):

a) the cost of providing the services concerned

b) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services

c) the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales

d) the effect on general price inflation over the medium term

e) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers

f) the need to maintain ecologically sustainable development (within the meaning of section 6 of the *Protection of the Environment Administration Act 1991*) by appropriate pricing policies that take account of all the feasible options available to protect the environment

g) the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets

h) the impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body

i) the need to promote competition in the supply of the services concerned

j) considerations of demand management (including levels of demand) and least cost planning

k) the social impact of the determinations and recommendations

l) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).

C Country Energy's current prices and comparisons across agencies

C.1 Country Energy's current prices

The following water and sewerage prices were set by Country Energy[52] in accordance with section 310 of the *Water Management Act 2000* (Water Management Act) and in line with the DWE *Best-Practice Management of Water Supply and Sewerage Guidelines*.[53] Under section 315 of the Water Management Act, Country Energy's prices must be approved by the Minister and gazetted before they can take effect.

Table C.1 Country Energy's water and sewerage prices ($ nominal)

	2008/09	2009/10	Change 08/09-09/10
Water prices			
Access charge ($ per year)[a]	214	219	2.3%
Tier 1 usage charge ($ per kL)[b]	0.91	1.05	15.4%
Tier 2 usage charge ($ per kL)[c]	2.36	2.36	-
Sewerage prices			
Residential access charge ($ per year)	361	397	10.0%
Non-residential access charge ($ per year)[a]	537	537	-
Non-residential sewer usage charge ($ per kL)	0.95	0.95	-

a This charge applies to properties with a 20mm connection. For properties with larger connections, the charge is calculated according to meter size.

b Applies to water consumption up to 1.645kL per day in the summer quarter and 1.096kL per day in other quarters.

c Applies to water consumption in excess of 1.645kL per day in the summer quarter and 1.096kL per day in other quarters.

Source: New South Wales Government Gazette No.93, *Country Energy - Schedule of Water & Sewerage Charges – Effective from 1 July 2009*,26 June 2009, pp3640-3643; and New South Wales Government Gazette No.76, *Country Energy - Schedule of Water and Sewerage Charges – Effective from 1 July 2008*, 27 June 2008, pp 6492-6495, available from www.countrywater.com.au.

52 Stormwater drainage services are provided by Broken Hill City Council.

53 Department of Water and Energy (NSW Government), *Best-Practice Management of Water Supply and Sewerage Guidelines*, August 2007.

C.2 Country Energy's prices and bills compared to other agencies

The following tables compare Country Energy's prices and example residential bills with other water agencies.

Metropolitan water agencies comparison

Table C.2 Residential water charges for 2009/10[a]

	Country Energy	Sydney Water	Hunter Water	Gosford Council	Wyong Council
Fixed charge ($pa)[b]	219	101.54	39.93	91.93	101.68
Usage charge ($/kL)	Tier 1: 1.05 Tier 2: 2.36	Tier 1: 1.87 Tier 2: 1.87	1.57	1.78	1.78

a For individually metered properties.

b For a 20mm meter.

Source: Hunter Water: IPART, *Hunter Water Corporation, Prices of water supply, wastewater and stormwater services*, Determination No.4, 2009 and www.hunterwater.com.au.

Sydney Water: Correspondence 29 June 2009, 2009-10 charges

Gosford Council: IPART, *Prices for water, sewerage and stormwater drainage services*, Determination No 1, 2009 and www.gosford.nsw.gov.au

Wyong Council: IPART, *Prices for water, sewerage and stormwater drainage services*, Determination No 2, 2009 and www.wyongsc.nsw.gov.au

Country Energy: New South Wales Government Gazette No.93 (26 June 2009) pp 3640-3643 and www.countrywater.com.au

Table C.3 Residential sewerage charges for 2009/10

	Country Energy	Sydney Water	Hunter Water	Gosford Council	Wyong Council
Fixed charge ($pa)	397.00	501.10	462.43	463.59	429.11

Note: Standalone dwelling with a 20mm meter.

Source: Hunter Water: IPART, *Hunter Water Corporation, Prices of water supply, wastewater and stormwater services*, Determination No.4, 2009 and www.hunterwater.com.au

Sydney Water: Correspondence 29 June 2009, 2009-10 charges

Gosford Council: IPART, *Prices for water, sewerage and stormwater drainage services*, Determination No 1, 2009 and www.gosford.nsw.gov.au

Wyong Council: IPART, *Prices for water, sewerage and stormwater drainage services*, Determination No 2, 2009 and www.wyongsc.nsw.gov.au

Country Energy: New South Wales Government Gazette No.93 (26 June 2009) pp 3640-3643 and www.countrywater.com.au

Table C.4 Residential bills for 2009/10

	Country Energy	Sydney Water	Hunter Water	Gosford Council	Wyong Council
Total residential bills ($pa)	826	976	849	910	886

Note: For a 20mm meter, assumes 200 kL consumption per annum

Note: Includes water and sewerage only.

Source: Hunter Water: IPART, *Hunter Water Corporation, Prices of water supply, wastewater and stormwater services*, Determination No.4, 2009 and www.hunterwater.com.au

Country Energy: New South Wales Government Gazette No.93 (26 June 2009) pp 3640-3643 and www.countrywater.com.au

Sydney Water: Correspondence 29 June 2009, 2009-10 charges

Gosford Council: IPART, *Prices for water, sewerage and stormwater drainage services*, Determination No 1, 2009 and www.gosford.nsw.gov.au

Wyong Council: IPART, *Prices for water, sewerage and stormwater drainage services*, Determination No 2, 2009 and www.wyongsc.nsw.gov.au

Rural water agencies comparison

Table C.5 Rural water agencies comparison

	Country Energy	Dubbo Council	Tamworth Council	Eurobodalla Council
Customers connected to water supply	10,000	14,000	18,000	18,000
Fixed charge – water ($pa)	$219	$126	$294	$305
Tier 1 usage charge –water ($/kL)	$1.05	$0.94	$1.06	$1.95
Fixed charge-sewerage ($pa)	$397	$502	$675	$662
Annual bill (water and sewerage)-200kL pa ($pa)	$826	$816	$1,181	$1,357

Note: Customer numbers are for the 2007/08 year, charges and bills are for the current year 2009/10

Source: For customer numbers: National Performance Report 2007/08

For charges:

Country Energy: New South Wales Government Gazette No.93 (26 June 2009) pp 3640-3643 and: www.countrywater.com.au

Dubbo City Council website: www.dubbo.nsw.gov.au

Tamworth City Council website: www.tamworth.nsw.gov.au

Eurobodalla Shire Council website: www.esc.nsw.gov.au

Glossary

CAPM	Capital Asset Pricing Model
COAG	The Council of Australian Governments
CPI	Consumer Price Index
DBT	Declining Block Tariff
DECC	NSW Department of Environment and Climate Change
Determination	The price limits set by IPART
DWE	NSW Department of Water and Energy
GL	Gigalitre (1 GL = 1,000 ML)
Gosford Council	Gosford City Council
Hunter Water	Hunter Water Corporation
IBT	Inclining block tariff
IPART	Independent Pricing and Regulatory Tribunal
IPART Act	The *Independent Pricing and Regulatory Tribunal Act 1992*
kL	Kilolitre (1 kL = 1,000 litres)
LRMC	Long run marginal cost
LWU	Local Water Utility
Metropolitan water agencies	Sydney Water Corporation, Hunter Water Corporation, Gosford City Council, and Wyong Shire Council
Minister	The Minister for Water Utilities
ML	Megalitre (1 ML = 1,000 kL)

NPV	Net Present Value
NWI	National Water Initiative
NWC	National Water Commission
Perilya	Perilya Limited - the company which owns the Broken Hill zinc, lead and silver mine
RAB	Regulatory asset base
RBA	Reserve Bank of Australia
SCA	Sydney Catchment Authority
Sydney Water	Sydney Water Corporation
Upcoming determination period	The determination period from 1 July 2010
WACC	Weighted Average Cost of Capital
Water Management Act	*Water Management Act 2000*
Wyong Council	Wyong Shire Council