

Review of Water, Wastewater and Stormwater Prices for Gosford City Council and Wyong Shire Council

Issues Paper



IPART

**INDEPENDENT PRICING AND
REGULATORY TRIBUNAL**
of New South Wales

Review of Water, Wastewater and Stormwater Prices for Gosford City Council and Wyong Shire Council

Issues Paper

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Submissions must be made in writing and should be sent to the postal address, fax number or email address below. Where possible submissions should be provided in a computer readable format (eg, word processor, PDF or spreadsheet) either on disk or by email.

Submissions from water agencies should be received by 21 October 2005

Submissions from other stakeholders should be received by 18 November 2005

Submissions should be sent to:

Review of Water, Wastewater and Stormwater Prices – Gosford and Wyong Councils
Independent Pricing and Regulatory Tribunal
PO Box Q290
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Submissions will be treated consistent with the *Privacy and Personal Information Act 1998*.

Confidentiality

Special reference must be made to any issues in submissions for which confidential treatment is sought and all confidential parts of submissions must be clearly marked. *However, it is important to note that confidentiality cannot be guaranteed as the Freedom of Information Act and section 22A of the Independent Pricing and Regulatory Tribunal Act provide measures for possible public access to certain documents.*

Public Information about the Tribunal's activities

Information about the role and current activities of the Tribunal, including copies of latest reports and submissions can be found on the Tribunal's website at www.ipart.nsw.gov.au.

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1 THE REVIEW

The Independent Pricing and Regulatory Tribunal (the Tribunal) is conducting a price review for Gosford City Council and Wyong Shire Council.

Current price paths for the Councils expire at 30 June 2006. This review will set the maximum charges to apply from 1 July 2006 to 30 June 2009 for Gosford City Council (Gosford Council) and Wyong Shire Council (Wyong Council).

This review is being conducted under Section 11 of the *Independent Pricing and Regulatory Tribunal Act 1992*.

1.1 Submissions

This Issues Paper is intended to help the water agencies and interested parties prepare submissions to this price review. The issues raised in this paper are those the Tribunal considers to be relevant for assessing potential water, wastewater and stormwater charges. However, the Tribunal also welcomes submissions on any issues relevant to pricing that interested parties believe should be addressed.

1.2 Matters to be considered

When setting prices for water businesses the Tribunal addresses broad social concerns and specific agency matters, as required by Section 15 of the *Independent Pricing and Regulatory Tribunal Act 1992* (the IPART Act) (see Appendix 1 for more detail).

The broader issues include:

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

Key agency matters for the Tribunal to consider are:

- the efficiency of water agencies' operating costs and the scope for further efficiency gains over the next price determination period
- the capital expenditure requirements of the water agencies and the outcomes that will be achieved by proposed capital expenditure
- the appropriate rate of return for these agencies
- alternative options for supply augmentation

- the funding arrangements for stormwater services
- the demand assumptions the Tribunal should adopt for setting prices
- customer impact mitigation measures, and
- the potential for the Tribunal to set water prices with reference to the Long Run Marginal Cost (LRMC) of water supply on the Central Coast.

1.3 Context

The 2006 review of water, wastewater and stormwater prices for Gosford City Council and Wyong Shire Council takes place at a time when both Councils are undertaking extensive investigations on strategies to manage the growing water supply and demand imbalance on the Central Coast.

At the time of its 2005 review, the Tribunal was concerned that there was considerable uncertainty about both Councils' future capital expenditure needs. Over an extended determination period this uncertainty would have increased the risk of a significant disparity between revenue and costs.

Given that the Councils are currently undertaking a feasibility study of the available options for augmenting their water supply (such as building a desalination plant or a larger connection to the Hunter Water System) and that key decisions on supply augmentation will be taken by September of 2005, the Tribunal decided at the 2005 review that it would not be possible to make an informed decision on the Councils' need for significant capital expenditure over a four year period.

In addition, the Tribunal had previously indicated that it wished to pursue cost-reflective pricing for stormwater services. However, due to a lack of information the Tribunal was not in a position to achieve this and decided to continue the existing pricing arrangements until the next review.

For these reasons, the Tribunal decided to limit its price path to one year from 1 July 2005 to 30 June 2006.

1.3.1 Transitional nature of 2005 determination

In May 2005, the Tribunal set prices for the period 1 July 2005 to 30 June 2006. The price path period was limited to one year in recognition that the Councils will make key decisions about which projects they will undertake to secure future water supplies and about how these projects will be funded in the latter half of 2005.

The Tribunal viewed its 2005 determination as part of a transition from pricing arrangements which reflect an underlying assumption about a stronger water supply position and associated higher water consumption to arrangements which reflect the long term nature of the drought.

To assist in setting prices for the period 1 July 2006 to 30 June 2009, the Tribunal intends to seek an update from the Councils on the implications for future operating and capital expenditure of key decisions on supply augmentation.

The Tribunal wrote to the Councils on 30 June 2005 requesting that updated pricing proposals be submitted. The Councils were asked to outline the following information:

- the findings of investigations into the most appropriate options for augmenting the Central Coast water supply
- updated operating and capital expenditure projections for the period from 1 July 2006 to 30 June 2009
- updated water consumption forecasts for the period from 1 July 2006 to 30 June 2009
- a revised price proposal for the period from 1 July 2006 to 30 June 2009
- details of revenue required in each year between 1 July 2006 to 30 June 2009.

The Tribunal is conscious that the Councils were required to submit a very comprehensive pricing submission prior to the 2005 review which outlined operating expenditure, capital expenditure, water consumption and prices for the period 1 July 2005 to 30 June 2009.

The Tribunal does not require that agencies resubmit information which has not changed since the previous submission. However, where forecasts have changed significantly, agencies should provide revised forecasts and details of the reasons for these changes.

1.3.2 Tribunal's review of backlog sewerage services for Gosford Council

For Gosford Council, the Minister of Energy and Utilities requested on 14 March 2005 that the Tribunal reopen the 1997 Determination of Backlog Sewerage Services (Determination 4.2, 1997).

The Tribunal intends to undertake a separate review of Backlog Sewerage Services for Gosford Council. A separate Issues Paper for this review has been released (available on the IPART website www.ipart.nsw.gov.au) and a separate public hearing will be held for this review.

2 REVIEW PROCESS

As part of its public consultation process, the Tribunal invites submissions from the water businesses and other interested parties. Submissions should address issues raised in this Issues Paper, including information on supply augmentation options, stormwater pricing, forecast operating expenditure, capital expenditure, prices and consumption assumptions, or related matters. The Tribunal will hold a public hearing into price levels, and will make submissions and other materials publicly available on its website.

The Tribunal will also engage a consultant to provide expert analysis and advice on proposed capital expenditure, asset management and operating expenditure programs across water, wastewater and stormwater businesses. In the past, the Tribunal's consultant has been required to undertake a very comprehensive review of capital expenditure, asset management and operating expenditure to identify the potential for efficiency gains.

Given that at the 2005 review the Tribunal's consultant undertook a detailed analysis of the Councils forecasts for the period 1 July 2005 to 30 June 2009, it may not be necessary to undertake as comprehensive a review in 2006. It is the Tribunal's intention that for the 2006 review, the consultant would be required to consider in detail only those forecasts which have changed since the 2005 review.

At this stage, the Tribunal intends to release a draft determination followed by a final determination which sets prices for each Council. The proposed timetable for the price path review is as follows:

Action	Timetable
Release of issues paper	Monday 22 August 2005
Water agency submissions due	Friday 21 October 2005
Public submissions due	Friday 18 November 2005
Public hearing	Friday 10 February 2006
Release of draft report for public comment	March/April 2006
Release of final reports	May 2006

Please note that the above dates are indicative and are subject to change.

At the conclusion of this review the Tribunal will make price determinations for Gosford and Wyong Councils in accordance with Section 11 of the IPART Act.

3 OUTSTANDING ISSUES FROM 2005 REVIEW

The 2005 IPART review of prices for water, wastewater and stormwater services for Gosford and Wyong Councils disclosed a number of outstanding issues which need to be addressed prior to the Tribunal setting prices for an extended period from 1 July 2006. In particular the Tribunal was concerned about the significant uncertainty about the future availability of an adequate water supply for the Central Coast, the most appropriate option for supply augmentation and the funding arrangements for stormwater services.

Each of these issues has the potential to significantly impact on the Tribunal’s assessment of the amount of revenue required by the water businesses to ensure that a safe and reliable water supply is provided in the future. This will, in turn, influence the prices that the Tribunal sets for the period 1 July 2006 to 30 June 2009.

3.1 Future water supply

Drought conditions continue to affect a large proportion of the Central Coast, placing pressure on water supply while population growth continues to add to water demands. The potential for water demand to exceed sustainable water supply over time has focused attention on both demand management and supply augmentation.

For Central Coast residents, the demand for water is currently outstripping the available supply with water restrictions having been in force since February 2002.

In recent months, the supply/demand situation has worsened rather than improved with storage levels continuing to fall in the absence of significant rainfall in the catchments. Table 3.1 shows recent information on the bulk water supply available to Gosford and Wyong Councils.

Table 3.1 Current storages – Week commencing 1 August 2005

Storage	Capacity Full [MI]	Volume in Storage [MI]	Per cent Full [%]	Storage Change over last Week
Mangrove Dam	190,000	41,397	21.8	Down 30 ML
Mardi Dam	7,400	7,331	99.1	Down 21 ML
Mooney Dam	4,600	2,619	56.9	Down 47 ML
Total	202,000	51,347	25.4	Down 98 ML

Source: Gosford-Wyong Council Water website (<http://www.gwcwater.nsw.gov.au> 1 August 2005).

It is important to distinguish the immediate drought induced problem, which may be resolved by good rains, from the longer term supply/demand imbalance. Even if storages were to be filled in the short term, the longer term trend of extractions, combined with ongoing population growth points to a growing supply/demand imbalance in the Gosford and Wyong Council supply areas. The Councils advise that water restrictions are likely to be in place for at least the next ten years.

Water pricing is one of the tools available as part of any total demand management strategy for water businesses. The imbalance between water supply and demand is likely to have significant implications for prices in both the short and longer term. In addition, Gosford and Wyong Councils are continuing investigations into options for supply augmentation. The outcome of these investigations is likely to have implications for the prices that the Tribunal sets for the period from 1 July 2006 to 30 June 2009.

Supply augmentation options raised by Gosford and Wyong Councils at the 2005 review are discussed below.

3.1.1 Options for supply augmentation

The three key options for supply augmentation presented by Gosford and Wyong Councils at the 2005 price review include:

- an extensive project of groundwater abstraction
- the substantial upgrade of the link with Hunter Water Corporation to allow an increased transfer of water from the Hunter system, and
- the construction of a 20ML/day desalination plant.

Ground water abstraction

In the short term, Gosford and Wyong Councils are examining the potential for groundwater abstraction along the Central Coast. At the 2005 review, Council advised that initial investigations had been successful with schemes identified to deliver an additional 5.5GL of water per year.

During the 2005 review, the Tribunal's consultant, Atkins/Cardno, noted that the Gosford/Wyong Joint Water Authority was following an appropriate approach to resource development in a drought situation and recommended that the Tribunal include additional costs for operating new groundwater sources.

Given that Gosford and Wyong Councils have now had time to further develop this project, the Tribunal would be interested in any updated information on the likely volume of water that can be expected to be yielded from this source and the implications for operating and capital expenditure during the period 1 July 2006 to 30 June 2009.

The Tribunal would also welcome comments from any other interested stakeholders on the Councils groundwater abstraction proposals.

Hunter transfer scheme

Gosford and Wyong Councils have recently been engaged in discussions with Hunter Water Corporation about the possibility of the Councils purchasing a large volume of water from the Hunter system on a regular basis to supplement their diminished water supplies.

At the time of the 2005 price determination, the Councils noted that the creation of a new bulk supply connection with Hunter Water was the preferred option for supply augmentation. However, at that time, the actual volume of water to be purchased and the costs involved remained uncertain.

During the 2005 review, Atkins noted that it supported the development of a bulk water connection with Hunter Water Corporation to provide the Central Coast with approximately 20ML of water per day.

Given that the Councils and Hunter Water Corporation have now developed this project further, the Tribunal would be interested in any updated information on the volume of water that could be available to Gosford and Wyong Councils on a regular basis and also the implications for operating and capital expenditure during the period 1 July 2006 to 30 June 2009.

The Tribunal would welcome further comment by the Councils or any other interested stakeholders on the development of a new bulk connection with Hunter Water Corporation.

Desalination

A third option being investigated by Gosford and Wyong Councils is the construction of a 20ML/day desalination plant. While recognising that this option is likely to be very expensive, the Councils note that if severe drought conditions continue in the future, the construction of a desalination plant may represent a necessary last resort emergency measure.

At the time of the 2005 determination, there was significant uncertainty about the likely implications of a desalination plant for operating and capital expenditure. At the 2005 review, Atkins recommended that the Tribunal exclude both the capital and operating expenditure for the desalination plant as the need for and timing of this scheme would not be clear until further information became available.

The Councils anticipated that more accurate information on the costs associated with this project would be available in the latter half of 2005 and that a decision on this project would need to be made in September 2005. This was a key factor in the Tribunal's decision to set prices for one year.

The Tribunal is particularly interested in any recent developments in relation to desalination as this is likely to significantly impact on the revenue required by Gosford and Wyong Councils and also on the prices that the Tribunal sets for the period 1 July 2006 to 30 June 2009.

The Tribunal would welcome further comment by the Councils or any other interested stakeholders on the appropriateness of a desalination plant to assist in securing the Central Coast water supply.

3.1.2 Demand forecasting

Setting prices for an extended period in the current environment of continuing drought and water restrictions is a complex task. Assumptions about water sales by Gosford and Wyong Councils are key inputs into the price setting process.

At the 2005 determination, the Tribunal sought detailed consumption forecasts from the water businesses and then engaged an independent consultant to review each agency's modelling and forecasts.

Prior to the 2005 determination, the Tribunal had taken the view that consumers should not face increased prices because of temporary restrictions. At the 2005 review, the Tribunal reaffirmed the position that temporary restrictions should not be factored into forecasts to be used for price setting. However, it noted that in the case of Gosford and Wyong Councils, level 2 restrictions were expected to remain in place for some time and that, for the purposes of the 2005 determination, the restrictions should be considered a fixed feature.

As it has now been almost a year since the Councils provided their forecast water sales for the period 1 July 2005 to 30 June 2009, it is possible that new information has become available. The Tribunal is interested in the Council's most recent forecast water consumptions for the period 1 July 2006 to 30 June 2009 and any further information on the likely duration of restrictions.

Given that the Tribunal undertook a comprehensive review of each agency's demand forecasts at the 2005 review, at this stage the Tribunal does not intend to engage a consultant to review the Councils revised demand forecasts in 2006. However, if the Councils revised forecasts are significantly different to those submitted in 2005, it may be necessary for the Tribunal to undertake a more detailed analysis.

3.1.3 Long Run Marginal Cost (LRMC)

Economic theory suggests that the usage price for water should be set to equal LRMC of supply. The LRMC represents the additional cost of funding measures to bring the demand and supply of water into balance.

The Tribunal prefers to set the usage price of water by reference to the LRMC. However, attempting to calculate the LRMC can be complex and uncertain. It involves estimating the costs and water savings associated with demand management and supply augmentation options.

The Tribunal intends to consider whether or not it would be possible to estimate the LRMC of supply based on a number of supply augmentation scenarios for the Central Coast region. These estimates may provide a useful reference point for setting water usage charges for Gosford and Wyong Councils.

The Tribunal would appreciate any information which can be provided on the capital and operating costs, the likely timing and the associated yield of supply augmentation or demand management options which could assist in estimating the LRMC of supply on the Central Coast.

3.2 Funding arrangements for stormwater services

The 2003 determination raised concerns about the funding arrangements for Gosford and Wyong Council's stormwater services. The Tribunal commented that it needs to be able to establish a clear relationship between the revenue raised by charges levied to fund drainage costs – such as Gosford's stormwater drainage levy – and the expenditure of this revenue. Any misalignment between the ownership and operation of stormwater assets within the Councils makes this particularly difficult.

For Gosford Council, the Tribunal noted at the 2005 determination that it was not yet able to establish a clear relationship between the revenue raised through the stormwater drainage levy and the associated stormwater drainage expenditure. However, it did note that Gosford Council had agreed to work with the Tribunal to simplify and clarify these arrangements by aligning asset ownership, revenues and expenditure in the future. Given that this issue has been of ongoing concern for the Tribunal since the 2003 determination, the Tribunal decided to maintain the Gosford stormwater drainage levy at its 2004/05 level in 2005/06.

The Tribunal recognises that both Councils have a responsibility for stormwater drainage management under the *Water Management Act 2000* to provide stormwater drainage services. However, it believes that those services should be separately charged for and accounted for.

At the 2006 review, the Tribunal intends to set separate, cost reflective stormwater drainage charges similar to the charges that it currently sets for water and wastewater services for both Gosford and Wyong Councils. This will require both Councils to separately identify their stormwater drainage activity base, operating and capital expenditures, and submit separate prices to the Tribunal for the period 1 July 2006 to 30 June 2009.

4 REVENUE REQUIREMENTS

Projections of required operating and capital expenditures for the determination period will form part of the assessment of each Council's revenue needs. The Tribunal seeks updated projections of future requirements from each Council in these areas. The Tribunal will consider what the proposed expenditures will imply for overall service quality and performance.

As in previous determinations, the Tribunal intends to engage an independent consultant to review the operating expenditure, asset management and capital expenditure programs of the water agencies. However, this review is not likely to be as comprehensive as is usually the case.

The consultant will be asked to consider (as a starting point) the agencies' original forecasts for the period 1 July 2005 to 30 June 2009 (ie, the forecasts which were submitted in October 2004) and then focus on any changes to those forecasts which have since been identified. The consultant will not be required to consider in detail those forecasts which have not changed, only those which differ significantly from the original submission.

4.1 Operating expenditure

Operating expenditure refers to the operation, maintenance and administration costs of the core business of the water agencies.

The Tribunal is seeking to determine the costs that an efficiently operating business would incur in operating the business effectively, without compromising service quality. Therefore, the Tribunal will ask the agencies to provide information on the potential for future efficiency gains, and will engage a consultant to review any changes to the agency's 2004 forecasts for operating expenditure for the period 1 July 2006 to 30 June 2009.

The consultant's advice and the agencies' expenditure and outcomes information will be used with the Tribunal's own analysis to determine appropriate levels of future operating expenditure for each agency.

4.2 Capital expenditure

Prudent and efficient capital expenditure is included in the regulatory asset base (RAB) and hence also influences revenue requirements.

The building block approach to calculating the revenue requirements of the businesses allows them to earn a rate of return¹ on the RAB and provides an allowance for capital maintenance (depreciation).

¹ The Tribunal's preferred approach for calculating the rate of return on capital is to use the weighted average cost of capital (WACC) to determine an appropriate range for the rate of return. For information on WACC see IPART, *NSW Electricity Distribution Pricing 2004/05 to 2008/09 – Final Report*, Appendix 7, January 2004.

The Tribunal's approach to the review and treatment of capital expenditure for the 2006 water review will be similar to previous reviews with a two stage regulatory test process – a forward-looking efficiency test of proposed capital expenditure for the coming regulatory period and a backward-looking prudence test of actual capital expenditure decisions in the current regulatory period.

In its 2005 review of capital expenditure, asset management and operating expenditure, the Tribunal's consultant (Atkins/Cardno) noted that it was difficult to make an accurate assessment of the level of capital efficiencies which had been achieved by Gosford and Wyong Councils during the previous price path period.

To address this concern, Atkins/Cardno recommended that the Tribunal append output measures to each program or large scheme to allow a view to be taken at the next review of the capital efficiencies achieved over time.

For the 2005 determination, the Tribunal did not set output measures for Gosford and Wyong Councils but intends to consider the use of output measures in further detail when setting prices for the period 1 July 2006 to 30 June 2009.

The Tribunal has written to Council seeking updated capital expenditure information to assist it in its 2006 review.

5 PRICE SETTING

As has been previously indicated, the Tribunal intends to set prices for water, wastewater and stormwater services for Gosford and Wyong Councils for an extended period from 1 July 2006. At this stage, the Tribunal is of the view that it would be appropriate to set prices for three years to ensure consistency with the price paths for Sydney Catchment Authority, Sydney Water Corporation and Hunter Water Corporation.

Water prices typically need to balance competing interests and pressures, such as economic efficiency, the environment and equity issues. Following is an outline of the pricing information that the Tribunal requires from the Councils to assist it in setting prices from 1 July 2006 to 30 June 2009.

5.1 Price structure

In September 2003, the Premier asked the Tribunal to investigate alternative structures for retail and wholesale water prices, to assess their potential to reduce demand for water in the Sydney Basin.

A key finding of the investigation was that the most suitable price structure for Sydney was an 'inclining block' structure that included a two-tiered variable usage charge and a lower fixed access charge. The Tribunal found that this price structure could potentially be used to send a strong signal about the need to reduce water consumption that particularly targets discretionary water consumption.

The Tribunal has previously indicated that it would also consider changes to price structure for Gosford and Wyong Councils. Both Gosford and Wyong Councils have previously indicated that they intend to undertake further work to investigate the potential benefits of an inclining-block tariff price structure to encourage water conservation.

The Tribunal intends to consider the merits of alternative price structures (such as an inclining-block tariff or move towards a greater reliance on usage charges) prior to setting prices for the period 1 July 2006 to 30 June 2009.

5.2 Price proposal

Prior to setting prices for the period 1 July 2005 to 30 June 2006 the Tribunal asked agencies to specify the prices that they required for the four year period from 1 July 2005 to 30 June 2009. However, the significant uncertainty associated with the current drought meant that the Tribunal could not confidently set prices for a four-year period for Gosford and Wyong Councils. Should Councils now wish to revise the prices that they submitted prior to the 2005 review to take account of updated information on operating expenditure, capital expenditure or water sales and supply augmentation, the Tribunal would be happy to accept a new price proposal for the period 1 July 2006 to 30 June 2009.

5.2.1 Miscellaneous charges

At the 2005 determination, the Tribunal engaged a consultant to review the reasonableness of each agency's proposal for miscellaneous charges for the period 1 July 2006 to 30 June 2009. Consistent with its decision on prices for water, wastewater and stormwater services, the Tribunal decided to set miscellaneous charges for Gosford and Wyong Councils for one year.

The Tribunal now proposes to set miscellaneous charges for a longer period. Should Councils wish to make changes to the charges for miscellaneous services which were proposed at the 2005 review, the Tribunal will consider each of these changes on a case by case basis.

5.2.2 Trade waste charges

At the 2005 review, the Tribunal set charges for trade waste services for Gosford and Wyong Councils for one year. At that time, Gosford Council proposed a number of changes to its trade waste charging policy to better reflect the Department of Energy and Utilities' (DEUS) Model Policy and Best Practice Pricing Guidelines for trade waste services. Wyong Council indicated that it intended to review its trade waste charges for the 2006 determination as part of the implementation of the DEUS Model Policy and Best Practice Pricing Guidelines.

The Tribunal understands that in order to be eligible for grants under the NSW Government's Country Towns Water Supply and Sewerage Program, the Councils are required to charge trade waste customers in line with the DEUS guidelines. While any changes to trade waste prices proposed by the Councils will be considered in this context, the Tribunal is particularly interested in the customer impacts associated with a revised price structure and the customer consultation undertaken by the Councils prior to implementing the new structure.

5.2.3 Recycled water pricing

At the 2005 determination, the Tribunal noted that it wished to encourage water businesses to promote and expand the use of recycled water. The Tribunal understands work in this area is continuing and is willing to consider the merits of any proposals for the pricing of recycled water raised by agencies or other interested stakeholders.

5.3 Service standards

When considering the impact of its pricing decisions on service quality, the Tribunal seeks to ensure that these decisions do not adversely affect the standards of service the Councils deliver to their customers. It sets prices in the expectation that service levels will be maintained and that cost reductions and efficiency savings will not be obtained at the expense of service standards. This is particularly important for Gosford and Wyong Councils because, unlike other agencies regulated by the Tribunal, the Councils do not have operating licences that require them to commit to minimum service standards. The Councils are required to meet some externally set mandatory standards, but they also establish other standards themselves.

At the 2003 determination, the Tribunal indicated that it would initiate a process to improve the quality and breadth of information on service quality available to it. As a first step in this process, in 2003 it established a working group with members from the Tribunal's Secretariat and the four retail water agencies to develop a series of performance indicators. Performance Indicator Returns were developed and were completed for the first time by water agencies in 2004. The Tribunal recognises that the agencies will require some time to establish systems to capture the necessary information in a consistent manner but believes that, once in place, the resulting data will better inform it on the quality of services provided to customers and the performance of the agencies' assets.

Additionally, the new Performance Indicator Return information will assist the Tribunal in fulfilling its obligations under section 15(1b) of the IPART Act relating to the protection of consumers from abuses of monopoly power.

For the 2006 determination, the Tribunal requires that agencies outline the implications of any changes to its price proposal for service standards.

5.4 Customer impact mitigation

The Tribunal is concerned to ensure that the Councils have appropriate measures in place to assist financially disadvantaged customers who may have difficulty in paying their bills.

Such measures may include special payment arrangements and financial assistance for the purchase and installation of water saving devices. The Tribunal requests that the Councils, as part of their 2006 pricing submissions, articulate their policies on:

- debt and disconnection (including restricting water supply to households)
- special payment arrangements for customers having difficulty paying their bills
- financial assistance for purchase and installation of water saving devices.

The Tribunal welcomes comments from Councils or other stakeholders on measures to ensure customers do not face unreasonable adverse financial impacts from price increases.

APPENDIX 1 SECTION 15 REQUIREMENTS

In making determinations, the Tribunal is required by the IPART Act (1992) to have regard to the following matters (in addition to any other matters the Tribunal considers relevant):

- a) the cost of providing the services concerned
- b) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services
- c) the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales
- d) the effect on general price inflation over the medium term
- e) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers
- f) the 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).

