



Central  
Coast  
Council

# Central Coast Council

IPART Review of Central Coast Council's  
water, sewerage and stormwater prices  
– Draft Determinations  
– Response to the Draft Report

24 April 2019



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## Contents

<b>1</b>	<b>Executive Summary .....</b>	<b>1</b>
<b>2</b>	<b>Introduction.....</b>	<b>4</b>
<b>3</b>	<b>Expenditure Allowances .....</b>	<b>5</b>
3.1	Operating expenditure .....	5
3.1.1	Full Time Employees (FTE's).....	6
3.1.2	Plant & Fleet.....	6
3.1.3	Consultancy expenditure.....	6
3.1.4	Materials .....	7
3.2	Capital expenditure.....	8
3.2.1	Exceptional adjustment calculation.....	8
3.2.2	Key capital project re-profiling .....	9
3.2.3	Gosford CBD Project .....	11
3.2.4	Implications of exceptional adjustment on future price determinations.....	11
3.2.5	Capital works delivery methodology .....	12
3.2.6	Cash contributions and efficiency factors.....	12
<b>4</b>	<b>Output measures.....</b>	<b>13</b>
4.1	Asset Performance - Water and Sewer.....	13
4.2	Additional proposed output measures .....	15
4.2.1	Water and Sewer .....	15
4.2.2	Stormwater Drainage.....	15
<b>5</b>	<b>Pricing Framework.....</b>	<b>16</b>
5.1	Water Usage price considerations .....	16
5.1.1	Water Demand Forecasts.....	16
5.1.2	Long Run Marginal Cost (LRMC) .....	16
5.1.3	Water usage charge – Conclusion .....	19
5.2	Sewerage prices .....	19
5.3	Sewerage chargeable volumes.....	20
5.4	Trade waste.....	21
5.4.1	Trade waste category S customer impacts.....	21
5.4.2	Trade waste Category 3 Annual fee .....	21
5.5	Stormwater drainage Pricing.....	22
5.5.1	Standard stormwater drainage price reduction.....	22
5.5.2	Area-based stormwater drainage service charges .....	24
5.5.3	Low impact stormwater drainage price .....	25

5.5.4	Area based charge .....	25
<b>6</b>	<b>IPART's processes .....</b>	<b>26</b>
6.1	Efficiency Carryover Mechanism (ECM) process .....	26
6.2	Disaggregation of asset lives .....	26
6.3	Output measures .....	26
<b>7</b>	<b>Appendix A – Council's response to IPART's draft decisions .....</b>	<b>27</b>
7.1	Length of determination and revenue to be recovered over this period .....	27
7.2	Operating expenditure .....	27
7.3	Capital expenditure and asset lives .....	28
7.4	Forecast water sales and customer numbers .....	28
7.5	Water prices .....	29
7.6	Sewerage prices .....	30
7.7	Stormwater drainage prices .....	31
7.8	Prices for specific customers .....	33
7.9	Prices for water supplied to other utilities .....	33
7.10	Trade waste and miscellaneous prices .....	34
7.11	List of draft recommendation and issues for comment .....	35
<b>8</b>	<b>Appendix B – Re-profiling Mardi to Warnervale Pipeline .....</b>	<b>38</b>
<b>9</b>	<b>Appendix C – Cash contributions .....</b>	<b>45</b>
<b>10</b>	<b>Appendix D – Additional Trade Waste Information .....</b>	<b>46</b>
10.1	Additional Trade Waste and Miscellaneous charges information .....	46

## 1 Executive Summary

Central Coast Council (Council) welcomes the opportunity to respond to the *Independent Pricing and Regulatory Tribunal's (IPART) Review of Central Coast Council's water, sewerage and stormwater prices – Draft Determination and Draft Report* as published on 2 April 2019.

Council notes that IPART has agreed with Council's submission in a number of areas, including the draft decisions to:

- Accept Council's proposal to harmonise water prices for former Gosford Local Government Area (LGA) and former Wyong LGA customers;
- Accept Council's proposal to rebase all water service charges to a 20mm meter equivalent basis;
- Accept Council's proposal to harmonise stormwater drainage prices across the Central Coast Council area

Council also accepts IPART's draft decisions to:

- Adopt a three year determination period;
- Set a standard 'low impact' stormwater price equal to the price for residential customers, and apply this price to all properties categorised as farmland for rating purposes; and
- Agrees with IPART's request to review asset lives prior to the next determination period

Council's primary concerns relate to:

- The level of future capital and operational expenditure allowed for in the revenue building blocks particularly the re-profiling of major capital works projects,
- The water usage price set in the draft price determination
- The decision to maintain a separate pricing structure for sewerage in Gosford and Wyong and the indication that this difference may be ongoing

This response sets out the basis for these concerns and challenges the methodology used by IPART and its Consultants in making these draft decisions.

Council acknowledges the challenges associated with this review, particularly as this is the first review of the recently amalgamated Central Coast Council, and appreciates IPART's understanding of some of the difficulties in obtaining information whilst Council continues to work through the amalgamation process to maximise the benefits to the Central Coast community. Council is committed to further developing its relationship with IPART over the period of this next price determination period with a view to refining its reporting framework and associated processes ahead of the next review in 2022.

All financial information has been reported in \$18/19.

## **Capital and Operational Expenditure Allowances**

Council has reviewed the draft decisions in relation to determining the level of forecast operational and capital expenditure allowances include in the revenue needs.

### *Operating Allowance*

Council considers that IPART's expenditure consultants' use of the 2017/18 financial operating expenditure as a baseline for efficient expenditure is flawed. This response sets out in detail why IPART's expenditure consultant should not use 2017/18 as a representative year as it does not recognise the different charging structures for plant and fleet, the lower than average spend on chemicals and the lower staff levels in place as a result of a moratorium on recruitment post-amalgamation. IPART's expenditure consultant has also not taken into consideration a number of consultancy engagements for operational projects that are to be carried out during this determination and were not included in the 2017/18 costs.

### *Capital Allowance*

In relation to the capital works allowance, Council challenges the \$10.3M exceptional adjustment to the notional revenue requirement for underspent capital expenditure allowance over previous determinations. Council accepts the need for some adjustment, however considers the amount of \$10.3M is overstated as this includes allowances for the Charmhaven Sewerage Treatment Plant upgrades and the Mangrove Creek Dam Spillway. These projects were excluded from IPART's 2013 determination as not being prudent or efficient projects and therefore cannot be included as underspent capital expenditure.

Council also raises concern with IPART's proposal to re-profile the delivery of two projects that are critical to better drought-proof the Central Coast; the Mardi to Warnervale Pipeline and the Mangrove Creek Spillway projects. Extending the delivery of these projects over a five year period is contrary to IPART's own test for prudent and efficient expenditure and would create significant challenges from a contracts and procurement perspective. Council has made significant advances in the delivery of both projects since it lodged its submission to IPART in September 2018 and is confident of delivering these projects within the timeframe as originally submitted to IPART. Council has made significant changes to its capital delivery framework and currently has both its sewer main relining and water main renewal projects underway. Coupled with a new resourcing strategy which among other things, includes a procurement panel for programs of work >\$150k and <\$1M, Council is confident of significant improvements in capital works delivery. This should be reflected in IPART's final report.

## Pricing Structure

### *Water*

IPART's draft decisions on water prices are heavily influenced by the calculation of the long-run marginal cost (LRMC) and the forecast water demand. Council notes from its previous discussions with IPART and its requests for clarification on the LRMC that IPART itself is unclear of the most appropriate method of calculating the LRMC. Confusion around this issue is further evidenced in IPART's *Review of recycled water prices for public water utilities – Draft Report* April 2019 where IPART deferred setting regulated prices for recycled water, instead allowing each utility to determine their own prices based on a broader retail price review or under scheme specific price determinations. The report also noted that LRMC for all water services should be subject to review. This reflects the uncertainty around the most appropriate methodology for calculating the LRMC. Council contends that IPART should not consider a material change to the current long term marginal cost (\$2.29/kl) until the work foreshadowed in the report is completed.

In terms of forecast water demand and a reduction in usage price, Council raises concern over the message this pricing signal sends to the community, particularly as water storage levels approach the trigger for water restriction implementation. The Central Coast Council area has been declared drought affected and water restrictions will commence once dam storage levels reach 50% (currently at 57%). Council considers that a significant reduction in the volumetric water price as proposed by IPART will increase water use at a time when the community need to be more restrained in terms of their water usage.

### *Sewerage*

Council's submission proposed harmonisation of water and sewerage prices across the Central Coast Council LGA. IPART has accepted Council's proposal to harmonise water usage charges, however, has determined that the sewerage prices are to remain separate between Wyong and Gosford customers. Council maintains its position that these prices should be harmonised.

IPART has foreshadowed an intention to consider catchment based pricing for sewerage services in future determinations. Council's initial analysis of this is that this move away from postage stamp pricing reduces the current equity between customers and may adversely impact the optimisation of operating and capital expenditures. Council will further consider its position over the next period and will continue to work with IPART on this matter.



## 2 Introduction

Central Coast Council's (Council) response to IPART's Draft Determination and Report on prices from 1 July 2019 focuses on those significant matters in which Council has concerns about.

This is the first price determination for the merged Council that comprises of the former Gosford City Council and former Wyong Shire Council. This merger occurred on 12 May 2016 and the full benefits to both the water and sewerage business and the stormwater drainage business within Central Coast Council continue to be realised.

In responding to IPART's documents Council's key focus has been:

- To provide high quality and affordable water, sewerage and stormwater drainage services to customers
- To continue to meet standards of performance required by the various State and Federal regulators
- To be environmentally responsible
- To meet the expectations of the broader stakeholders
- To be commercially sustainable

Council has identified the following areas in IPART's draft price determination and report that Council requests be reconsidered:

1. Water, sewer and stormwater drainage
  - Notional revenue requirements (Section 3)
  - Output measures (Section 4)
  - Pricing framework (Section 5)
2. IPART's processes (Section 6)

Each of the above areas is discussed in a chapter of the main body of this response. Central Coast Council's position on each of IPART's 51 draft decisions is provided in Appendix A.

Additional supporting information regarding the Mardi to Warnervale Pipeline Project is provided in Appendix B.

The following conventions have been adopted throughout the document:

- All dollar amounts are in \$2018-19 terms, unless otherwise stated;
- The Draft Determination and Report are both referred to as the 'Draft Report'.



### 3 Expenditure Allowances

Council's pricing submission proposed a Notional Revenue Requirement (NRR), for each of the price regulated services (water, sewerage and stormwater drainage). IPART's building block framework was used.

IPART's draft report recommends that the Council's proposed NRR should be adjusted down by \$13.7M in year one, with a total reduction of \$45.5M (8.5%) over the length of the determination. The operational allowance in the draft report reduces the NRR by \$36.7M. Capital expenditure further reduces the NRR by \$11.8M, with a further reduction of \$10.3M due to the revenue variance resulting from the deferral of capital projects. These projects were forecast to be undertaken in the current determination period 2014-19.

**Table 1 - Notional Revenue Requirements by service (NRR) (\$M \$2018-19)**

Fund	2019-20	2020-21	2021-22	Average	Total
<b>Water</b>	73.6	73.4	74.6	73.9	221.6
<b>Sewerage</b>	74.2	74.1	74.4	74.2	222.7
<b>Stormwater drainage</b>	15.0	15.2	15.5	15.2	45.7
Total	<b>162.8</b>	<b>162.8</b>	<b>164.5</b>	<b>163.4</b>	<b>490.1</b>
Council proposed	<b>176.5</b>	<b>178.4</b>	<b>180.7</b>	<b>178.5</b>	<b>535.6</b>
<b>Difference - \$</b>	(13.7)	(15.6)	(16.2)	(15.2)	(45.5)
<b>Difference - %</b>	<b>-7.80%</b>	<b>-8.80%</b>	<b>-9.00%</b>	<b>-8.50%</b>	<b>-8.50%</b>

*This table shows the impact of the NRR reduction of \$45.5M against the individual funds and impacts incurred over the respective determination periods.*

#### 3.1 Operating expenditure

In relation to IPART's reduction to Council's forecast of operational costs, the draft determination report 'Forecast Operating Expenditure' Section 1.5, page 10 states:

***"The decision largely reflects our view that the Councils actual operating expenditure in 2017-18 is a more reliable baseline for estimating future operating costs than Council's proposed estimates."*<sup>1</sup>**

Council's forecast increase in operating expenditure was primarily to provide materials, equipment and specific temporary expertise to support the business's objectives including an increase in the FTE count representative of the previous staffing levels pre-amalgamation. IPART, in reducing Council's operating cost forecast, has based its conclusion on the findings of its consultants as set out in the Atkins Cardno report. This report concluded that Council's 2017-18 actual cost formed a more appropriate baseline upon which to base the forecast operational costs. Council disputes this conclusion as some of the operational costs do not form part of the base operational costs but are required to support additional periodic maintenance/inspection initiatives.

<sup>1</sup> Review of CCC Water, Sewer and Stormwater Prices 'Forecast Operating Expenditure' Section 1.5, page 10

### **3.1.1 Full Time Employees (FTE's)**

Council's forecast staffing needs have decreased from the aggregate allowed for in the 2013 price determinations for the former Gosford City and Wyong Shire Councils.

In the 2013 Wyong and Gosford determinations, the total FTE's were set at 376 (232 Gosford & 144 Wyong - water, sewerage and stormwater drainage combined). Council's price submission proposes to decrease the FTE's to 356. Accordingly, Council's request for additional operating expenditure is not related to costs for additional staff.

### **3.1.2 Plant & Fleet**

Council's 2017-18 actuals did not reflect the revised pricing structure now levied by Plant and Fleet.

The 2018-19 forecasts increased the plant and fleet expenses by \$1.2m above the 2017-18 actuals. Therefore Council contends that this cost be reinstated.

### **3.1.3 Consultancy expenditure**

There are a number of strategic, periodic consultancy engagements required during the next IPART determination period which were not undertaken during 2017-18 (IPART's adopted baseline). These engagements are often cyclic in nature and need to be accounted for on a bottom up approach. To assume that the level of expenditure occurring during a single year is representative of a large organisations requirement for cyclic consultancy expenditure is flawed. A number of these examples are provided below:

- **Central Coast Integrated Water Resources Project** - Undertaking this work is a periodic regulatory requirement every eight to ten years and as such is not base operating expenditure and not reflected in the 2017-18 expenditure. The total budget for this project is \$3.6m over three years from 2019 to 2021. This expenditure is not discretionary as recent changes to the Water Management Act (General) Regulation 2018 now require the approval of the Integrated Water Cycle Management component of this project, by the Minister, before June 2021. Failure to meet this deadline will mean that Council will not be granted approval to issue water charges, irrespective of IPART's determination. Full details relating to this project were provided to Atkins Cardno as part of the expenditure review process.
- **Tunnel and Outfall inspections** - This is risk based, periodic expenditure and not representative of Councils normal operating costs, as Atkins Cardno have proposed in their expenditure review. Water and sewerage tunnels are required to be inspected every 10 years and therefore did not form part of the 2017-18 baseline. Work has commenced to prepare the condition assessment contract specification and procurement strategy for commencement of the inspections in 2020 and to continue for the remainder of the determination period. Council will be undertaking these critical asset inspections in the next determination period and notes that these were not included in the 2017-18 baseline.

- **Major revision of 2007 northern growth corridor servicing strategy** – Revision to a now 12 year old servicing strategy is required to update planned infrastructure requirements based on current growth projections and network demands. This study was last completed in 2007 and was therefore not included in the 2017-18 baseline used by Atkins Cardno to set Council's required operational expenditure.

Not undertaking this work would result in inefficient asset creation as development occurs, either causing future level-of-service issues or water quality risks.

- **Critical pressure main strategic review and condition assessments** – This is an asset management improvement project which aims to better define Council's mix of 'avoid fail' vs 'run to fail' pressure mains. In addition, the project would undertake targeted condition assessment of the avoid fail mains to better inform their due date for renewal. Failure of critical pressure mains has a significant financial impact on Council as the failure of these mains has broader impacts on the community, not just the asset. Council has experienced eight major pressure main breaks over the past two years and the cumulative cost of these breaks has exceeded \$1M. It is therefore critical that this work is undertaken. This is a new initiative and was not included in the 2017/18 baseline used by Atkins Cardno to set Council's required operational expenditure. The project also aligns with Atkins Cardno recommendations to better inform Council's pipeline renewal requirements and allow certain assets to be operated to the end of their useful life. The longer term community benefits from the project will include a reduction in water supply interruptions as Council will be able to better focus its critical pressure main renewal expenditure towards higher risk assets in future years.
- **Supervisory Control And Data Acquisition (SCADA)** – The two previous Councils had separate SCADA systems to monitor key infrastructure. The SCADA system is the responsibility of the water and sewer directorate. The costs will lead to increased SCADA system efficiencies, harmonisation of processes, and a reduction in future maintenance costs and enhanced system security. This project is a sub project of the Water Operations Centre (WOC) and will enhance system monitoring in relation to key network infrastructure. The alignment of these systems is not reflected in the 2017-18 base operational costs.

As seen from the above selection of consultancy projects, there are a number of 'step changes' in operational expenditure required over the next determination period. The approach of adopting the 2017/18 period as a baseline for all operational consultancy costs is flawed in this regard. Council contends that its original proposed operational Consultancy expenditure is included in its NRR.

### 3.1.4 Materials

Weather conditions are a significant factor to the level of chemicals required to provide water that meets the Drinking Water Quality standards. These conditions impact raw water quality and raw water source selection. The original budget was set using detailed budgeting processes to reflect operational costs for an assumed scenario of treatment being Mardi

Water Treatment Plant (WTP) treating water from Mardi Dam at typical dose rates. The 2017/18 year should not be used as a cost base as historical data shows that the weather conditions during this year were favourable in providing good quality raw water. Therefore chemical costs to treat the water to the required standard were lower. The following chart was provided to Atkins Cardno to support this contention.

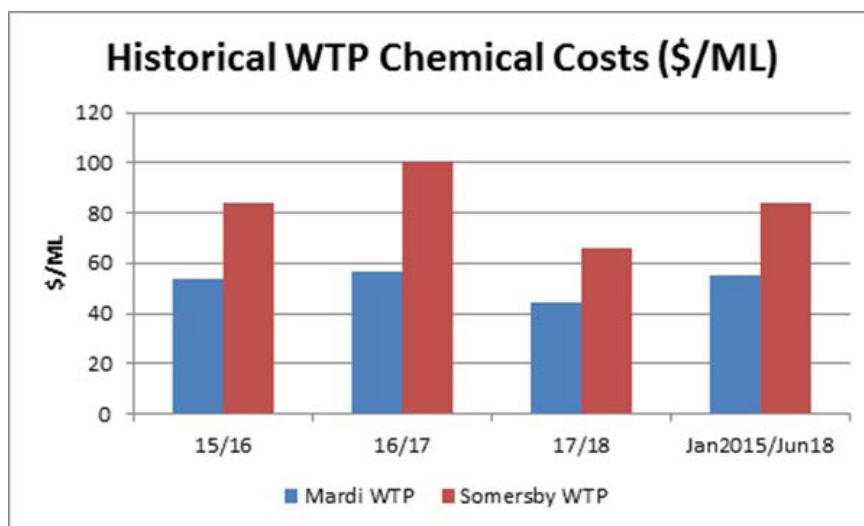


Figure 1 Historical WTP Chemical Costs

Council is required to provide water that meets Drinking Water Quality Standards and therefore its forecast costs are representative of the chemicals required to treat the “average” level of raw water quality and therefore request that this cost be reinstated.

Council requests that the original chemical expenses be included in the operational allowance as detailed Table 2.

Table 2 – Council’s Forecast Chemical Costs

	2018/19	2019/20	2020/21	2021/22
<b>Somersby</b>	\$1,112,957	\$1,120,922	\$1,129,743	\$1,138,228
<b>Mardi</b>	\$976,587	\$1,024,586	\$1,290,409	\$1,559,946

- These figures are inclusive of Powder Activated Carbon and Ferric Chloride

## 3.2 Capital expenditure

### 3.2.1 Exceptional adjustment calculation

IPART has reduced revenue needs for each of the water, sewerage and stormwater drainage services to reflect Council’s underspend of capital over the 2014 to 2019 period; this adjustment totals \$10.3m.

Council disputes the basis of IPART’s calculation. The inclusion of the Charmhaven Sewage Treatment Plant (STP) and Mangrove Creek Dam Spillway projects within this calculation is not valid. In the 2013 Price Determination (Section 4 of its Report), IPART did not deem those projects to be prudent and efficient as part of its 2013 pricing review. As a result of this

decision, expenditures for these projects were not included in the regulatory asset base and hence the associated revenue was not collected from customers. Council contends that this should reduce the exceptional adjustment of \$10.3m by \$2.9m to \$7.4m (Table 5.9 of the Draft Determination Report).

### **3.2.2 Key capital project re-profiling**

IPART's forecast level of prudent and efficient capital expenditure in Table 5.3 of the IPART Draft Determination report has factored in re-profiling of two major projects as recommended by Atkins Cardno in their report<sup>2</sup> resulting in delaying the delivery of water security benefits from these projects to both Central Coast and Hunter Water customers.

Council does not agree with the figures included in Table 5.3 of the IPART Draft Determination report, for future water capital expenditure. This is a result of IPART's proposed re-profiling of expenditure associated with the Mardi to Warnervale Pipeline and Mangrove Creek Dam Spillway projects. Council maintains that the value of the forecast closing RAB for the 2019 Determination Period needs to be adjusted to reflect the Council's proposed expenditure profile for these two major projects.

Supporting information is provided below and Council seeks confirmation from IPART that it has not included the 'catch-up' efficiencies listed by Atkins Cardno for two of Council's major projects that are currently at the construction phase (Mardi to Warnervale Pipeline and Mardi Water Treatment Plant Upgrade).

Council demonstrated in its response to Atkins Cardno's Draft Expenditure Review that it has already realised these efficiency gains (not that it was too late to achieve those efficiencies) and they are reflected in the forecast expenditure (procurement efficiencies, value engineering and bundling of related projects). Applying a further 'phased in' set of catch-up efficiency gains to these projects would represent 'double dipping' on efficiency gains.

#### Mardi to Warnervale Pipeline (M2WP) project

Council maintains its ability to deliver the Mardi to Warnervale Pipeline (M2WP) within the project timeline proposed in its submission. The project is of high strategic importance to provide an increase the level of water security to both Council and Hunter Water's customers. Significant progress (in line with project program) has been made since the Atkins Cardno expenditure review. This progress is detailed in Appendix B.

Extending the timeframe for delivery would not only result in delaying the water security benefits but also in the project failing the prudent and efficient test. The timetable proposed by IPART would result in additional real costs, particularly in the areas of project management, governance and contractor costs. In this regard Council will be setting the contract duration for the construction contract consistent with its program and not the expenditure profile set by IPART.

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<sup>2</sup> Central Coast Council Expenditure Review Final  
Report IPART March 2019 Section 4.5.2.2 & 4.5.4.1

The project's construction phase business case has been completed, community consultation has occurred and an Expression of Interest (EOI) process has commenced for the construction contract. A significant proportion of project team resources are already in place, with recruitment for the remaining roles significantly progressed.

The EOI submission period closed on 28 March 2019 and Council's evaluation process is currently underway. Requests for Tenders (RFT) to shortlisted EOI participants will be issued in July 2019 to allow the award of the construction contract by the end of 2019. This is in line with Council's program presented previously to Atkins Cardno.

Feedback received from EOI respondents to date is indicating a construction duration of 14-16 months which is also in line with Council's program and expenditure profile. Additionally, the M2WP Review of Environmental Factors (REF) has since been finalised and there are no foreseeable risks to the construction program for the project. The particular items of concern raised by Atkins Cardno (changes to Coastal SEPP and final fauna surveys) have been completed and included in the REF. There is no impact to the project program presented to Atkins Cardno in October 2018. In consideration of the above, a construction period exceeding four years is not foreseeable, nor would it be efficient. Council's proposed expenditure profile should be used when determining its notional revenue requirement for the 2019 Determination Period.

Further supporting information relating to the M2WP project is provided in Appendix B

#### Mangrove Creek Dam Spillway project

This project is required to increase the level of water security for both Central Coast Council and Hunter Water's customers. Council maintains its ability to deliver the Mangrove Creek Dam Spillway project within the program proposed in its submission and supported by the 'Gate 1' Business Case.

Extending the timeframe for delivery will not only result in delaying the water security benefits but also in the project failing the prudent and efficient test.

To increase the level off water security for Central Coast and Hunter Water customers, Council requires that both these projects be delivered in the timeframe as proposed in its price submission as detailed in Table 3.

**Table 3 – Council's proposed costs and timeframes**

<b>Year ending June: (\$k 18-19)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Mardi to Warnervale Pipeline proposed by Council	640	4,031	39,061	13,748	0
Mangrove Creek Spillway Upgrade Proposed by Council	100	520	919	3,750	1,890

### 3.2.3 Gosford CBD Project

IPART has applied efficiency factors, as recommended by Atkins Cardno, to all forecast capital expenditure. One of these projects is the Gosford CBD project (this project includes both water and sewerage projects). The NSW Government will only contribute up to the cost of the Gosford CBD project which IPART has assessed to be lower than that proposed by Council. IPART's price model has made no adjustment for the level of Government contributions applied to this project. This has resulted in approximately \$3M in cash contributions being applied to the capital expenditure used to calculate the net capital expenditure added to the regulatory asset base. Council therefore considers that the regulatory asset base for water and sewerage is understated. The efficiency factors applied to the capital costs result in the following reduction in capital cash contributions.

**Table 4 - Efficiency factors**

<b>\$'000 18/19</b>	<b>2019/2020</b>	<b>2020/2021</b>	<b>2021/2022</b>	<b>Total</b>
<b>Water</b>	58	228	677	962
<b>Sewerage</b>	248	497	1,267	2,012
<b>Total</b>	306	725	1,943	2,974

### 3.2.4 Implications of exceptional adjustment on future price determinations

Whilst Council understands the need for a recognition that additional revenue has been collected as a result of lower than forecast capital expenditures, Council is concerned as to the impact of the exceptional adjustment (\$10.3M) on the potential for price changes in the price period commencing 1 July 2022.

The \$10.3M reduction (noting that Council disagrees with the calculation methodology as identified in section 3.2) results in a real reduction in the proposed revenue needs for the period 2019/20 to 2021/22 as outlined in Table 5.

**Table 5 Revenue Variance %**

	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>
<b>\$'000</b>	\$2018-19	\$2018-19	\$2018-19
<b>Water</b>	2.1%	2.0%	2.0%
<b>Sewerage</b>	2.0%	2.0%	1.9%
<b>Stormwater Drainage</b>	1.7%	1.7%	1.6%

In the next price period, if Council's prudent and efficient real revenue needs merely remain at the current level prior to the exceptional adjustment, it will require a real increase in the average cost of service of between 1.6% and 2% to recover this current level of revenue need thus making the impact of any real increase in these revenue needs (e.g. via capital expenditures) challenging to socially support i.e. it may result in the potential of an affordability question. Council understands that IPART cannot commit the Tribunal that will be in place for the 2022 price determination to accepting the potential of a real price increase; however Council requests that, in the interests of transparency for stakeholders, this matter be specifically spelt out by IPART of any potential future impacts in the final determination report.



### **3.2.5 Capital works delivery methodology**

Council is in the process of engaging a specialised consultant to provide procurement and delivery advice to its capital works program regarding water and sewerage infrastructure delivery to ultimately develop a long term strategy. This work is anticipated to be completed by October 2019. Council's objective is to improve and optimise delivery efficiency in the performance of the Water and Sewer capital works program.

The strategy used to procure the capital works program has been identified as a key success factor in improving program delivery performance. The strategy will allow Council to select the most appropriate contract delivery method in order to procure and deliver Council's capital works program and the resources required for optimal delivery.

It is anticipated that the benefits realised from this consultancy and finalisation of the capital works delivery strategy will be seen in year two of the IPART price path.

Council has undertaken a review of the water and sewer main renewals required over the next determination period. Based on the renewal requirements, two long term delivery contracts have been established which allows Council to scale the workload to match budget or renewal objectives. Both the water and sewer contracts have been developed on a schedule of rates platform over a set term which allows rapid and efficient delivery of water and sewer main renewals.

### **3.2.6 Cash contributions and efficiency factors**

IPART's Draft Report (Table 5.3) compares Council's capital expenditure as proposed in its price submission to that which IPART has assessed to be prudent and efficient for inclusion in the regulatory asset base. This table does not factor in the external cash contributions that Council has sourced to reduce the impact of the capital expenditure on the price. These contributions represent 67% of IPART's total forecast prudent and efficient capital expenditure. A summary of this is represented in Appendix C.

## **4 Output measures**

### **4.1 Asset Performance - Water and Sewer**

Council's submission to IPART proposed a series of output measures relating to asset performance and levels of customer service, harmonised across the two former Council Local Government Areas. The proposed output measures included improvements across a number of water network indicators, and a slight increase in the sewer overflow indicator compared to the previous determination period.

During the expenditure review carried out by Atkins Cardno, Council was challenged to provide a further improved set of performance targets to reflect the proposed increase in renewal expenditure above the levels of expenditure that occurred during the 2013 determination period. In its draft determination, IPART has further increased the level of performance of a number of performance measures, beyond the increases proposed by Council during the expenditure review. At the same time, IPART has determined that the level of renewal expenditure in the 2013 determination period is sufficient to maintain current performance (in the short term).

Council cannot support the adoption of IPART's proposal to increase the output measure performance, while maintaining renewal expenditure at levels expended during the 2013 determination period. IPART's approach to setting Council's revenue requirement was based on maintaining renewal expenditure and associated performance achieved during the 2013 determination period. The proposed output measures are disconnected from this approach as they represent significant performance improvements beyond what Council proposes as achievable when coupled with an increase in renewal expenditure. IPART's proposed output measures cannot be consistently achieved within its proposed revenue requirement. Council has specific concerns regarding the level of proposed improvements to the unplanned interruptions and water main breaks performance measures. These significant performance improvements cannot be sustained without an associated increase in capital expenditure on water main and critical water valve renewals. Council's proposed increase in operational expenditure to implement its pressure mains criticality framework and associated critical water main condition assessment programs are also fundamental to meeting the increased performance measures.

**Table 6 - Service levels summary table**

<b>Water and Sewer</b>	<b>Output measure</b>	<b>Current target</b>	<b>Council proposed target for next period</b>	<b>IPART draft determination target (2020/21/22/23)</b>	<b>IPART proposed / current target</b>	<b>Current performance (4 year average)</b>
<b>Water</b>	Water quality complaints / 1000 properties	9.9	9	(8 / 8 / 8 / 7)	29%	9.85
<b>Water</b>	Average frequency of unplanned interruptions per 1000 properties	151.8	136	(115 / 115 / 115 / 115)	24%	142* (3 year average)
<b>Water</b>	Water main breaks per 100km main	23.7	20	(16 / 16 / 16 / 14)	41%	19.2
<b>Water</b>	Compliance with ADWG - microbial guideline values	100	100	(100 / 100 / 100 / 100)	100%	100
<b>Water</b>	Compliance with ADWG - Chemical guideline values	100	100	(100 / 100 / 100 / 100)	100%	100
<b>Sewer</b>	Wastewater overflows per 100km main	32.6	32	(32 / 30 / 28 / 26)	10%	28.5
<b>Sewer</b>	Wastewater overflows reported to the environmental regulator per 100km main	1.6	1.6	(1.6 / 1.5 / 1.4 / 1.3)	19%	2.175
<b>Sewer</b>	Wastewater odour complaints per 1000 properties	1.9	1.9	(1.7 / 1.7 / 1.5 / 1.3)	32%	1.71
<b>Sewer</b>	Wastewater breaks and chokes per 100km main	35.6	35.6	(35.6 / 34 / 32 / 30)	16%	35.1
<b>Sewer</b>	Compliance with EPL concentration & load limits	N/A	Yes	(Yes / Yes / Yes / Yes)	N/A	N/A

In light of IPART's approach to setting Council's revenue requirements, Council contends that the water and sewerage network performance measures should be set as per its original pricing submission as shown in Table 6. These targets incorporate improvements on existing (2013 Determination) targets and are representative of a 'business as usual' level of service, instead of the increased level of service/expenditure proposed by IPART.

## **4.2 Additional proposed output measures**

### **4.2.1 Water and Sewer**

#### Customer Service: Supply Interruptions

Council cannot currently report on an output measure relating to planned water supply interruptions. Council has no baseline at the current time as it does not record planned interruption durations and could not satisfy this new output measure. Council can however undertake system changes to allow this data to start being collected and obtain a baseline over the next determination period to allow adoption of this output measure in a future determination period. Council requests that this performance measure be delayed until a baseline can be obtained.

### **4.2.2 Stormwater Drainage**

Council will undertake system changes to allow data to be collected and obtain a baseline over the next determination period. This will allow adoption of the following additional output measures identified in IPART's draft report.

#### Flooding incidents due to asset failure

Council does not support adoption of output measures related to 'flooding incidents due to asset failure'. New system implementation will have the opportunity to include data collection in relation to failure modes through final inspection programs and incident responses.

#### Customer survey results

Council does not support adoption of output measures related to 'customer survey results' due to existing data collection methods, however new processes will be adopted to allow the collection of the data to then be able to set the baseline for the next determination period.

## **5 Pricing Framework**

### **5.1 Water Usage price considerations**

#### **5.1.1 Water Demand Forecasts**

IPART's draft determination includes two key differences from Council's submission which has increased the total forecast sales over the 3 year pricing period from Council's estimate of 82,054 ML to 87,680 ML (increase of 6.86%).

##### Water sales forecast figures

In the draft determination, IPART has applied the exempt properties forecast sales on the top of the Council figures resulting in an increase of 2,357 ML (2.87%) in total sales forecast. Council's water sales forecast modelling included the demand from exempt properties therefore adding this demand results in double counting of forecast demand for water from exempt properties. IPART's demand forecast should be therefore be reduced by 2,357ML over the three year period.

##### Non-residential forecast sales figures

It appears that IPART is comparing the demand forecast figures (2019/20 to 2021/22) with 2016/17 and 2017/18 figures reported in Council's Annual Information Return (AIR). It is generally recognised that 2016/17 and 2017/18 were comparatively dry years; Council's forecast is based on long-term, average rainfall years. The demand adopted by IPART for the price modelling differs with respect to the starting point and then the application of a 4.12% increase spread over 5 years.

#### **5.1.2 Long Run Marginal Cost (LRMC)**

IPART has set the usage price for water at \$1.90/kl (\$18/19) against Council's price as per its submission of \$2.20/kl (\$18/19); IPART's proposed price results in a reduction of 17% from the current price.

Whilst part of this reduction in price results from IPART's assessment of lower notional revenue requirements for water (6.1%) the adjustment also results from a difference between Council and IPART's estimated long run marginal cost (LRMC) for the supply of water. Estimating the LRMC of water is an inexact science and there are a number of alternative methodologies that could be adopted.

Regardless of the methodology, the outcome can materially vary depending upon a number of key factors including:

- Calculation of yield of the existing system;
- Demand forecasts;
- Identification of the optimal augmentation works;
- Calculation of incremental yield increases associated with the augmentation works;
- Timing and staging of those augmentation works;
- Capital costs of the augmentation works;
- Operating strategy of the system pre and post provision of the augmentation works;
- Operating costs of the system pre and post augmentation works; and

- Length of the analysis period and how that length relates to the staging of augmentation works.

There are two key future activities that will impact LRMC:

1. Council is currently in the process of developing its next Integrated Water Resource Plan (IWRP). This plan will consider a range of key issues that will likely have a material impact on the development of the LRMC. These include updated and revised hydrology, yield analysis (including yield methodology) and a portfolio of actions to secure the water supply in the longer term that will most likely comprise a mix of demand and supply side solutions. As part of IWRP Council will consider integrated water cycle management options and water efficiency programs. The reduction in the usage price of water makes commercial justification for these more difficult thereby delaying or eliminating the environmental and social benefits resulting from such projects.
2. The Water Sharing Plan (WSP) for the Central Coast Unregulated Water Sources prepared by the Department of Industry is due for renewal in 2019. This plan has a significant impact on the yield of the Central Coast Water Supply as it sets out the rules for sharing water between the environment, water supply and other water users in the water catchments of the Central Coast. It is proposed that the remake of the WSP and IWRP be undertaken interactively to identify interactions between the yield of the water supply system and the rules proposed in the WSP. The WSP will consequently have an impact on the derivation of the LRMC of water on the Central Coast. The timing of this activity is outside of the control of Council.

In the absence of the Integrated Water Resource Plan (IWRP) being completed, a proxy LRMC was developed based on rectifying the flood capacity constraint on Mangrove Creek Dam (MCD) (spillway and parapet wall) and provision of a desalination plant located adjacent the Toukley Sewage Treatment Plant. Whilst Council is committed to rectifying the flood capacity constraint on MCD, Council has made no decision in relation to the desalination plant and any decision on future augmentation works will follow the development of the IWRP which is due for completion in 2021.

In addition, IPART has foreshadowed on page 33 of its paper *Review of recycled water price for public water utilities (April 2019)* that IPART itself has not landed on a definitive methodology to determine the LRMC. Council have drafted a set of high-level principles for the estimation of LRMC to be included in our Guidelines for Water Agency Pricing Submissions.<sup>3</sup>

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<sup>3</sup> Review of recycled water prices for public water utilities, page 33, April 2019

## Potential impacts of reduced price for water usage

### Reduced level of water security

Council anticipates that the price reduction for water usage is likely to result in an increase in demand for water from both residential and non-residential customers. IPART has reflected this by applying a demand elasticity factor to the demand forecasts, namely 2.7% for houses, 0.5% for apartments, 2.8% for non-residential and 2.8% for exempt properties (increase of 2,126.0 ML over the 3 year determination (2,126,000KI)).

Water availability in Council's and Hunter Water's area of operations is closely linked with the water networks of both businesses being capable of sharing water across operational boundaries. Council is concerned that setting a lower price will result in an increase in demand. Current weather patterns indicate reduced rainfall; therefore any increase in demand could potentially impact water security for both Council and Hunter Water customers. Council contends that the reduced usage price for water is sending the wrong message to its customers.

### Customers' ability to contain costs

IPART's draft determination results in a reduction in the proportion of a residential water bill that can, to some extent, be controlled by customers. A comparison of the % of a water bill that is usage based for a range of water businesses is shown in Table 7.

**Table 7 - Other water utility analysis**

	Central Coast	Sydney Water	Hunter water	Yarra Valley*	CityWest
	2019/20				
<b>Consumption</b>					
<b>105 kl pa</b>	64.6%	73.0%	76.6%	78.1%	81.9%
<b>170 kl pa</b>	74.7%	81.4%	84.1%	85.2%	88.0%
<b>250 kl pa</b>	81.3%	86.6%	88.6%	89.4%	91.5%

*\*Yarra Valley has stepped usage prices. The above % is calculated on the lowest usage price.*

Council contends that increasing the proportion of a water bill related to usage would send better price signals to:

- Reduce demand and increase water security;
- Give customers more control over their water bill.

In summary, Council contends that a price reduction for water usage sends the wrong message in relation to:

- Reduced water security for Council and Hunter Water's customers
- Less ability for customers to control costs
- Long term price stability
- Challenges to commercially support investments to optimise the entire water cycle with potential outcomes of improving the availability of environmental water.



### 5.1.3 Water usage charge – Conclusion

Council contends that IPART should reconsider the price set for water usage in the draft price determination with a view to setting it at the level proposed by Council (\$2.20 /kl \$18/19).

## 5.2 Sewerage prices

IPART's draft determination 'Sewerage Prices Section 8.2 Item 23'<sup>4</sup> states:

***"Not to accept the Council's proposal to harmonise sewerage service prices across its area, and instead maintain separate sewerage service charges for Gosford and Wyong customers".***

The approach by IPART to separate the sewerage service charges between the two former Local Government Areas (LGA) is not endorsed by Council as previously discussed and the approach put forward in the submission was one that was representative of community views. Council's submission proposed harmonisation of all prices including sewerage services. With emphasis on sewerage pricing, this was based on the drivers discussed below.

### The "One Coast" principle

Council's price submission proposed a common price for water, sewerage and stormwater drainage services in line with the overarching Community Strategic Plan principal of creating "One Central Coast". Continuing price differentials will work against removing any of the current divisions that still exist. Differing prices will create additional administrative burdens as well as supporting the impression that the two former LGA's still exist or have some regulatory standing which is clearly not the case. Councillors have specifically stated a preference for price disparity to be removed as soon as possible and common prices established.

### Capital investment

The materially higher level of historical net capital expenditure in the former Gosford LGA sewerage services is a key component to the current price differential between the two previous LGA's. An additional \$110M (\$15/16) was spent over the period 2004-16. The primary drivers of this were the Coastal Carrier Sewer Mains project and works at the Kincumber Sewerage Treatment Plant (STP).

While a higher level of sewerage capital expenditure spend in the former Gosford LGA is proposed to continue in the next determination (\$49M in former Gosford LGA compared to \$35M in former Wyong LGA), this is not unexpected due to relative condition of the infrastructure. As outlined below, this trend is then likely to reverse. This will begin with significant works at both the Bateau Bay and Charmhaven STPs in the next determination that will continue after 2023-24.

Furthermore, if total water and sewerage capital expenditure over the next determination period is considered, then greater expenditure is planned in the former Wyong LGA. Proposed expenditure in the former Wyong LGA is \$117M compared with \$75M in the

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<sup>4</sup>Central Coast Council's Water, Sewerage and Stormwater 'Sewerage Prices Section 8.2 Item 23'

former Gosford LGA. This highlights the fact that Council will vary expenditure to ensure the efficient provision of a common standard of water and sewerage services to all customers across the Central Coast.

Council anticipates a significant level of capital investment for renewal, refurbishment and upgrade works on the former Wyong LGA sewerage infrastructure over the next 10 years. This will include:

- Significant renewals of the northern sewer network which comprises of 6 Sewerage Treatment Plants (STP). Each of these plants has a smaller capacity than the Kincumber STP in the south. Process reviews and condition assessment projects included in the operating expenses for the 2019 determination period will provide Council with the necessary prioritisation and justification for renewals in the next determination period.
- Large upgrades planned for the previous Wyong LGA STPs (Bateau Bay STP and Charmhaven STP) in the 2019 determination period and beyond, servicing faster network growth in the former Wyong LGA.
- As the sewer network in the former Wyong LGA will expand at a faster rate than in the former Gosford LGA, a larger proportion of sewer rising mains and trunk main upgrades will be required in the former Wyong LGA. This will necessitate capacity upgrades as well as renewals. This work is evidenced through the Northern Growth Corridor Servicing Strategy, as referenced in section 3.1.3.
- A greater level of Sewer Pump Station (SPS) renewals is expected in the former Wyong LGA. These SPS's are reaching an age where lesser condition is evident and reports are expected to contain a greater need for refurbishments and capacity upgrade.

If the price is harmonised from 1 July 2020 the impact on price of the historical capital expenditure in the south will be shared between north and south customers and the anticipated future capital expenditure in the previous Wyong LGA will also be shared between all Council customers resulting in a high level of equity. If price differentials are realised, it has the potential to cause customer dissatisfaction regarding prices between customers in the north and south.

Whilst Council's submission adopted a principal of uniform population growth across the LGA, if the forecast population growth over 2019 – 2023 is broken down further, it supports the expectation that population growth will be higher in the former Wyong LGA. This will naturally result in higher expenditure in the former Wyong LGA (due to the development of Warnervale Employment Zone, Warnervale Town Centre and Lake Munmorah) where Council has capital expenditure programs that are aligned to specific needs at the time. Council maintains its proposal to align the prices, as outlined in its price submission.

### **5.3 Sewerage chargeable volumes**

Council notes IPART's decision to increase the chargeable sewerage volumes as set out in table 6.5 of IPART's draft report. Council acknowledges the increase resulting from the removal of the 150KL discharge allowance on non-residential customers, however is concerned that the increase in sewerage volumes are based on IPART's changed forecast water demands. This results in an increase to sewage volumes of 753ML over the

determination period. Council argues that sewage volumes will be influenced by water restrictions (as discussed in section 5.1.1) which therefore results in reduced revenue.

## 5.4 Trade waste

### 5.4.1 Trade waste category S customer impacts

In their report, Marsden Jacobs & Associates (MJA) highlighted potential customer impacts in relation to Category S liquid trade waste dischargers. MJA suggest that *some customers affected by this charge may be domestic customers, and so Central Coast Council should actively engage with customers on the change, and offer appropriate Hardship Programs to enable the impact of the change to be moderated.*

Liquid Trade Waste is defined as all liquid waste other than sewage of a domestic nature, which can be produced by business, commercial, and industrial activities, by community and public facilities, and by institutions such as hospitals and schools. Category S is defined as *dischargers who transport or discharge septic tank, pan, private pump stations (non-residential) and ship-to-shore waste.* These dischargers are private companies. They seek and obtain approval from the Council to dispose their septic waste to the treatment plant, and pay a fee to Council as agreed.

Council is aware that most of the clients of Council's Category S dischargers are industrial or business entities. It is likely that the proposed moderate increases as shown in Table 8, may fall upon certain domestic customers on some instances. However, Council is not directly involved in the interactions between the discharger and their domestic customers. Council wishes to reiterate that Trade Waste Services does not regulate domestic customers, only industrial and business customers. Council will consider options to engage with domestic customers of Category S dischargers with respect to any fee changes and to discuss appropriate Hardship Programs.

**Table 8 - Current and proposed charges for Category S customers**

	Septic effluent (unable to discharge onsite) kL	Septage and septic effluent (sludge) kL
Former Wyong (\$) – Current charge	Nil	17.12
Former Gosford (\$) – Current charge	1.71	14.59
Central Coast (\$) – Proposed charge	1.78	17.84

### 5.4.2 Trade waste Category 3 Annual fee

For Category 3, Council proposed harmonised charges for the Central Coast Local Government Area consisting of an Application Fee of \$2,210.55 and an Annual Fee of \$1360.34. In essence it is an Annual Fee increase for the former Wyong Shire LGA and a decrease for the former Gosford City LGA.

IPART discusses different fees for applicable regions based on the former Gosford City and former Wyong Shire LGAs. While maintaining the same Application Fee for the applicable regions, IPART determines \$869.32 for the former Wyong Shire LGA and \$1788.33 for the former Gosford City LGA in 2019/20, to a harmonised Annual Fee of \$1360.34 in 2021/22.

As Marsden Jacobs and Associates (MJA) observes, *an Annual Fee for Category 3 covers two trips to site each year, and associated inspection and monthly administration costs.* The same Trade Waste Supervisor undertakes these duties for both applicable regions, and the cost recovery associated with these duties are consistent with the charges proposed by the Council. Council contends that the same fees should apply to the entire Central Coast LGA.

**Table 9 - Category 3 high volume trade waste discharge services fees**

<b>Fees</b>	<b>1 July 2019 to 30 June 2020 (\$)</b>	<b>1 July 2020 to 30 June 2021 (\$)</b>	<b>1 July 2021 to 30 June 2022 (\$)</b>
Application fee	2,210.55	2,210.55	2,210.55
Annual fee – Former Gosford Area	1,788.33	1,574.34	1,360.34
Annual fee – Former Wyong Area	869.32	1,114.83	1,360.34
Reinspection fee	112.30	112.30	112.30

## 5.5 Stormwater drainage Pricing

### 5.5.1 Standard stormwater drainage price reduction

Council does not support a reduction in this rate from \$110.77 per year to \$105.11 per year. The reduction will mean a significant material decrease in stormwater drainage revenue and result in a reduction in service levels in both capital works delivery and operational maintenance. It is considered that the draft determination may not adequately take into account:

1. A reduction in revenue will have a significant impact on stormwater drainage service levels. This will result in a reduced capital works program and a reduction in maintenance service levels. The draft determination has recommended consideration of a range of drainage output measures including the length of infrastructure constructed per year. A reduction in revenue will result in a reduction in the historic performance target which is publicly reported as part of Council's Operational Plan key performance indicators.
2. The 2017-18 financial year drainage expenditure, which was used as the basis for the draft determination, was not representative due to restrictions on recruitment and resources arising from the Council's amalgamation. The 2019-20 budget has been based on the zero-based budget developed for 2018-19 which is currently tracking within 5% of the phased budget at the third quarter.
3. The reduction in the standard residential stormwater drainage price is compounded by other revenue reductions proposed in the draft determination. The draft determination has proposed a reduction in the price for vacant land, a reduction for non-residential properties zoned as Environmental Protection, Recreation and Waterways and a price path reduction in all other non-residential prices. The cumulative impact of these reductions will result in further drainage service level reductions.

IPART's draft determination 'Stormwater Prices Section 9.3 Draft Prices for residential customers and vacant land'<sup>5</sup> states:

***"To set a standard stormwater price for all properties categorised as residential for rating purposes of \$105.11 per year in 2019-20 and maintain this price in real terms in 2020-21 and 2021-22."***

Whilst Council supports a standard stormwater price for all properties categorised as residential for rating purposes, we do not support a reduction in the rate from \$110.77 per year to \$105.11 per year.

The reduction in price results in a significant decrease in stormwater drainage revenue and will necessitate a reduction in service levels in both capital works delivery and operational maintenance. It is anticipated that the impacts will include:

*A reduced stormwater drainage capital works program and a corresponding reduction in the length of stormwater drainage infrastructure renewed, upgraded or extended each year.*

Council sets targets in relation to this metric and reports to the public on a quarterly basis via the Operational Plan key performance indicators. The IPART draft determination has requested consideration of the same metric as a stormwater drainage output measure. Council is on track to deliver 7km of drainage infrastructure in 2018/19. A 5% reduction in the stormwater drainage capital works program would see approximately 350m less construction in 2019/20. A review of capital works priorities shows two major construction projects and two major design projects will need to be deferred to accommodate the capital revenue reduction.

The proposed reduction in operational expenditure on stormwater drainage will have a significant impact on stormwater service levels including a potential reduction in full time employee numbers. The impact to stormwater maintenance and planning is forecast to include:

- Council undertakes maintenance on approximately 5km of open channels each year to remove significant blockages that have potential to lead to flooding or asset failure. A reduction in the level of service will mean 0.5km less maintenance and possible flooding in these locations.
- Council undertakes maintenance on approximately 80km of table drains each year to remove significant blockages that have the potential to flood properties or roads. A reduction in the level of service will mean 3.0km less clearing work with the possibility of localised road flooding in these locations.
- Council undertakes approximately 3,100 maintenance actions per year to clear significant reductions in the capacity of the stormwater network structures i.e. maintenance to pits, pipes, culverts and headwalls. A reduction in the level of service will result in

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<sup>5</sup>Review of Central Coast Council's Water Sewerage and Stormwater Prices 'Stormwater Prices Section 9.3 Draft Prices for residential customers and vacant land'

approximately 620 less maintenance actions which will have the potential to create localised flooding of roads and properties.

- A reduction in plant and tipping fees associated with the above activities will be required.
- Deferral of consultant investigations in relation to drainage matters eg dam break studies.
- Deferral of the Empire Bay & Davistown Floodplain Investigation Report.

*Reduce the long term sustainability of Council's stormwater drainage asset network.*

Most of Council's stormwater drainage assets were constructed between the 1970's and 2000's. Whilst drainage assets have long lives, the age profile of the asset base means that an unsustainable amount of asset renewal will be required during the same time period in the future. At the current level of stormwater revenue / renewal investment, this will result in future accelerated deterioration of the asset network, a significant increase in risk / liability and a major reduction in stormwater drainage service levels. In recognition of this and in accordance with sound asset management practice, Council's original proposal had proposed to progressively increase its stormwater drainage renewal investment to manage the future impact, maintain service levels and ensure an equitable intergenerational distribution of stormwater drainage asset management costs.

### **5.5.2 Area-based stormwater drainage service charges**

IPART draft determination Schedule 3 clause states:

***(b) The area-based stormwater drainage service charge for a Non-Residential Property that is part of a Non-Residential Multi-Premises is an amount determined by Central Coast Council.***

***(c) The sum of the amounts determined by Central Coast Council under clause 4(b) for Properties in a particular Non-Residential Multi-Premises must not exceed the charge in Table 3.2 for the applicable Period for a Property with the same Property Area as that Non-Residential Multi-Premises.***

Council does not support IPART's draft determination to limit the total price for a non-residential property that is part of a multi-premise to the equivalent area based price. The proposal brings non-residential multi-premises out of alignment with residential multi-premises and will potentially result in further stormwater drainage revenue reduction. Furthermore, existing systems do not support the accurate calculation of the charges and increase the risk of over or under charging.

Council recommends that the stormwater drainage price for non-residential multi-premises be the same as residential multi-premises i.e. a flat 25% discount on the standard residential and low impact price. This is consistent with Council's revenue modelling undertaken in support of our proposal and ensures an equitable approach between residential and non-residential multi-premises.

### **5.5.3 Low impact stormwater drainage price**

Council does not support IPART's draft determination to automatically apply the standard 'low impact' stormwater drainage price for medium to very large mining or business properties zoned 'environmental', 'recreation' or 'waterways' due to the impact on stormwater drainage service levels and administrative constraints. Council recommends investigation of this option during the next determination period with a view to inclusion in future determinations. These properties will otherwise need to apply for a low impact assessment to eligible for the reduced rate.

Zonings are not currently recorded in the rates database and existing systems are not set up to administer the stormwater drainage charge in this manner. Further, the application of zonings to the rates database has not been considered in the revenue modelling and will likely result in further reduction in drainage revenue. The application of the zonings to the rates database will also create complexity in billing as many medium to very large mining and business properties have multiple zones and further protocols will need to be developed to identify the appropriate zoning for each property.

### **5.5.4 Area based charge**

Council does not support gradual transitioning of the area based charge over time as it will result in a further reduction in stormwater drainage revenue.

Council does not support IPART's draft determination to limit the total price for a non-residential property that is part of multi-premises to the equivalent area based price. The proposal brings non-residential multi-premises out of alignment with residential multi-premises and will potentially result in further stormwater drainage revenue reduction. Furthermore, existing systems do not support the accurate calculation of the charges and increase the risk of over or under charging.

Council recommends that the stormwater drainage price for non-residential multi-premises be the same as residential multi-premises i.e. a flat 25% discount on the standard residential and low impact price. This is consistent with Council's revenue modelling undertaken in support of our proposal and ensures an equitable approach between residential and non-residential multi-premises.



## **6 IPART's processes**

### **6.1 Efficiency Carryover Mechanism (ECM) process**

Council will implement IPART's recommended ECM process for the determination period from 1 July 2019 and will apply the following logic:

- Council provides operational expenditure forecasts.
- Council benefits from the cost of delivering actual operational expenditure or lower than forecast operational expenditure in each year of a regulatory control period.
- Prior to the start of the next regulatory control period, the carryover amounts for operational efficiency gains or losses made in the regulatory control period are calculated.
- Carryover amounts are calculated in each year it is made so it retains incremental efficiency gains or losses for the length of the carryover period after it makes the gain/loss.
- The carryover amounts are an additional 'building block' when setting the regulated revenue for the next regulatory control period.

### **6.2 Disaggregation of asset lives**

Council acknowledges IPART's position and will liaise further with IPART during the determination period.

### **6.3 Output measures**

In relation to flooding incidents and customer survey results, Council will investigate system improvements and reporting mechanisms during the next determination period to support potential application of the additional output measures as part of future determinations.

## **7 Appendix A – Council’s response to IPART’s draft decisions**

### **7.1 Length of determination and revenue to be recovered over this period**

#### **1. To adopt a 3-year determination period, from 1 July 2019 to 30 June 2022**

In light of the approach taken by IPART in its pricing review, Council supports the adoption of a three year determination period.

#### **2. To set the notional revenue requirement (NRR) as shown in Table 3.1**

Council does not support IPART’s draft NRR. Please refer to Chapter 3 in the main body of the response for further details.

#### **3. To set the regulatory asset base (RAB) values as shown in Table 3.5**

Council questions IPART’s draft regulatory asset base regarding the values. Issues such as re-profiling of certain projects and the overall reduction in capital projects. Refer to Section 2.2.1.

#### **4. To set the weighted average cost of capital (WACC) at 4.2%**

In light of the approach taken by IPART in its pricing review, Council notes the average cost of capital (WACC) will be set at 4.2%.

#### **5. To account for annual changes in the cost of debt through a regulatory true-up in the following determination period**

In its Draft Report, IPART has determined to introduce an adjustment for the trailing average of Council’s cost of debt efficiency. This will be calculated based upon the average cost of debt incurred by Council in the 3 year period commencing 1 July 2019. Council notes this change.

#### **6. To set prices to recover the total NRR over three years, in present value terms.**

In light of the approach recommended by IPART in its pricing review, Council accepts that prices be set over the three year determination period so that the present value of the target revenue equals the present value of the NRR. Council does not support the proposed NRR as per the draft determination.

### **7.2 Operating expenditure**

#### **7. To set the efficient level of the Council’s operating expenditure as shown in Table 4.1.**

Council does not support IPART’s use of its 2017-18 budget actuals for future operational needs. Please refer to Section 3.1 in the main body of the response for further details.

#### **8. To introduce an efficiency carryover mechanism (ECM) for the Council’s operating expenditure.**

IPART, in its draft report has determined to introduce the efficiency carryover mechanism for operating costs commencing 1 July 2019. Council acknowledges this (as evidenced in its pricing submission) and as outlined in the draft report. Council will identify and quantify efficiencies in the period 1 July 2019 to 30 June 2022 and consider these in the next determination period.

### **7.3 Capital expenditure and asset lives**

**9. *To set the prudent and efficient level of past capital expenditure to be included in the regulatory asset base (RAB) as shown in Table 5.1.***

Council notes IPART's assessment that all of Council's previous capital expenditure from 2013-14 to 2017-18 was prudent and efficient. Council however maintains that its 2018-19 expenditure (including renewals expenditure) is considered to be prudent and efficient in line with its existing Business Cases that have previously been provided to IPART and Atkins Cardno.

**10. *To set the efficient level of capital expenditure to be included in the regulatory asset base (RAB) over the 2019 determination period as set out in Table 5.3.***

Council does not support IPART's draft regulatory asset base regarding the values. Issues such as re-profiling of certain projects and the overall reduction in capital projects. Please refer to Section 3.2.1 in the main body of the response for further details.

**11. *To address the Council's previous capital underspends by a \$10.3M reduction to its notional revenue requirement (NRR) over the 2019 determination period.***

Council does not support the reduction to the NRR of \$10.3M. Please refer to Section 3.2.2 in the main body of the response for further details.

**12. *To apply the asset lives as shown in Table 5.10 in the 2019 determination period.***

Council notes IPART's acceptance of the proposed approach to calculating existing asset lives and have updated the calculation to reflect the RAB values. Council requested new assets to be set at an asset life of 100 years. Council acknowledges IPART's alteration to 75 years. Council acknowledges the approach that IPART has taken for the 2019 determination period.

### **7.4 Forecast water sales and customer numbers**

**13. *To adopt the water demand forecasts as set out in Table 6.1.***

Council does not support IPART's proposed water demand forecasts in relation to water security, customer behaviour and the Hunter Water sharing plan. Please refer to Section 5.1 in the main body of the response for further details.

**14. *To set the average residential consumption per customer for the purposes of setting developer charges to 150 kL for each year of the determination.***

In light of the approach taken, Council notes IPART's decision to set the average residential consumption per customer for the purposes of setting developer charges to 150 kL for each year of the determination.

**15. *To adopt the Council's customer numbers for the purpose of setting maximum prices.***

In light of the approach taken by IPART in its pricing review, Council notes the customer number adopted by IPART.

**16. To recover the shortfall associated with exempt properties and pensioner rebates from the broader customer base**

Council's pricing submission outlined that Council sees its role as supporting the community and providing assistance to the community without disadvantaging others. Pensioners on the Central Coast receive the full 100% rebate, however only 55% of that rebate is reimbursed to Council by the State Government. The remaining 45% is funded by Council. Council's pricing submission proposed not to recover the value of the discount not reimbursed by State Government from all other water users.

IPART has made a draft decision to recover the costs from water customers (thereby adjusting the customer numbers). IPART believes it provides simplicity and transparency and a consistent approach from both exempt properties and pensioner rebates.

**17. To adopt the forecasts for sewerage chargeable volumes as set out in Table 6.5.**

Council does not support the forecast sewerage volumes based on the forecast water demands and shares similar revenue concerns. Please refer to Section 6.4 in the main body of the response for further details.

**18. To consider, at the next determination of the Council's prices, making an adjustment to future prices to address any over- or under-recovery of revenue over the 2019 determination period due to material variation between the level of actual water sales and the forecast water sales used in making this determination, where: – a material variation is defined as more than 5% (+ or -) over the whole determination period, – we would only consider adjusting for variation greater than 5% (+ or -), and – we will consult as part of the next price review on how the volatility mechanism could be applied, if a material variation occurs.**

In light of the approach taken by IPART in its pricing review, Council supports the adjustment to future process to address any under or over recovery of revenue using the demand volatility adjustment mechanism to +/-5%.

## **7.5 Water prices**

**19. To accept the Council's proposal to align water service prices in the Gosford and Wyong areas from 2019-20 onwards.**

In light of the approach taken by IPART in its pricing review, Council supports the proposal to align the water service charges between the former Wyong & former Gosford Local Government Areas.

**20. To accept the Council's proposal to set water service prices on a 20mm meter basis, where all residential dwellings are deemed to each be one 20mm meter equivalent customer.**

In light of the approach taken by IPART in its pricing review, Council supports the proposal to set the water service prices on a 20mm meter basis.

**21. To set the maximum water usage price at \$1.90 per kilolitre in real terms over the 3-year determination period from 2019-20 to 2021-22.**

Council does not support a usage price at \$1.90 per kL. This issue is addressed in section 5.1.2 in the body of this report.

**22. *Not to include a Climate Change Fund pass through mechanism in the 2019 Determination.***

Council maintains its proposal to retain the CCF pass through mechanism in the 2019 Determination. Inclusion of the mechanism has no financial impact, unless the Minister directs its use to recover revenue from Central Coast customers for use by the State Government. In the event the Minister seeks to exercise this power, having the mechanism included in the determination would avoid administrative rework at a later date to re-establish the provision.

It would be considered efficient to include the provision in the final Determination noting this provides ongoing flexibility for changing circumstances as the majority of the state, including the Central Coast, remains affected by drought.

## **7.6 Sewerage prices**

**23. *Not to accept the Council's proposal to harmonise sewerage service prices across its area, and instead maintain separate sewerage service charges for Gosford and Wyong customers.***

Council does not support IPART's decision to maintain separate service charges for Gosford and Wyong customers.

**24. *To accept the Council's proposal to set all sewerage service prices in the Gosford area to a 20mm equivalent basis from 2019-20 onwards (where all residential dwellings are deemed to each be one 20mm equivalent customer).***

In light of the approach taken by IPART in its pricing review, Council supports the proposal to set the sewerage service prices on a 20mm meter basis.

**25. *To transition all sewerage service prices in the Wyong area to a 20mm meter equivalent basis, over a 4-year path.***

In light of the approach taken by IPART in its pricing review, Council supports the proposal to set the sewerage service prices on a 20mm meter basis.

**26. *To set a 75% sewerage discharge factor for all residential properties.***

Council acknowledges IPART's decision and understands that the 75% discharge factor does not impact IPART's draft NRR.

**27. *Not to accept the Council's proposal to reduce the discharge allowance in sewerage service prices from 150 kL to 112.5 kL for all customers, and instead:***  
***– Reduce the allowance for residential customers to 125 kL for houses and 80 kL for units in multi-premises.***  
***– Remove the allowance for non-residential customers, and apply the sewerage usage charge to all sewerage discharge (based on each non-residential property's water consumption multiplied by the relevant discharge factor)."***

Council acknowledges IPART's decision and understands that as a result of the removal of the 150kL for non-residential properties, Council will face more cost reflective bills. Council

stated previously to IPART that it would be rare that a non-residential customer consumed less than its proposed discharge allowance.

**28. To maintain the maximum sewerage usage price at \$0.83 per kilolitre in real terms over the 3-year determination period from 2019-20 to 2021-22.**

In light of the approach taken by IPART in its pricing review, Council accepts the proposal to maintain the sewerage usage price at \$0.83 over the 3 year determination period.

## **7.7 Stormwater drainage prices**

**29. To accept the Council's proposal to harmonise stormwater prices across the former council areas.**

In light of the approach taken by IPART in its pricing review, Council supports the proposal to harmonise the stormwater drainage prices across former council areas. This is consistent with Council's original proposal.

**30. To set a standard stormwater price for all properties categorised as residential for rating purposes of \$105.11 per year in 2019-20 and maintain this price in real terms in 2020-21 and 2021-22.**

Council supports IPART's draft determination to set a standard stormwater drainage price for all properties categorised as residential for rating purposes and maintain this price in real terms in 2020-21 and 2021-22. This is consistent with Council's original proposal.

Council does not support a reduction in this rate from \$110.77 per year to \$105.11 per year. Please see section 5.5.1 above for more information.

**31. To provide a 25% discount on the standard stormwater price for dwellings within multi-premise residential properties and all vacant land.**

Council supports IPART's draft determination to provide a 25% discount for dwellings within multi-premises residential properties. This is consistent with Council's original proposal.

Council supports IPART's determination in relation to vacant land, due to the non-material nature of the reduction in revenue. The revenue modelling undertaken for Council's original IPART proposal, was based on all vacant land being charged at the standard stormwater drainage price for residential or the low impact stormwater drainage price for non-residential. A 25% reduction for vacant land will have a minor impact on stormwater drainage revenue i.e. approximately 3,000 properties x \$105.11/yr x 25% = \$78,800.

**32. To set a standard 'low impact' stormwater price equal to the price for residential customers, and apply this price to all properties categorised as farmland for rating purposes.**

Council supports IPART's draft determination to set a standard 'low impact' stormwater drainage price for residential customers. This is consistent with Council's original proposal. Council also supports the automatic application of the standard low impact price to all properties categorised as Farmland for rating purposes.

Council has undertaken significant desktop research and analysis into Farmland properties to confirm that they meet the low impact stormwater drainage criteria of having impervious area equating to 10% or less of the total property area. The few Farmland properties that did not meet the impervious area criteria were seen to have significant stormwater drainage

storage, reuse and treatment measures that would otherwise support a low impact assessment. This outcome is also consistent with the revenue modelling assumptions applied to develop Council's original proposal.

- 33. To automatically apply the standard 'low impact' stormwater price for properties categorised as mining or business for rating purposes that meet one of the following eligibility criteria: – small properties (less than 1,000m<sup>2</sup>), – medium to very large properties (greater than 1,000m<sup>2</sup>) zoned 'environmental', 'recreation' or 'waterways', and – other medium to very large properties where the Council has assessed that impermeable surfaces cover less than 10% of the land area**

Council supports IPART's draft determination to automatically apply the standard 'low impact' stormwater drainage price for small mining or business properties (less than 1,000m<sup>2</sup>) and for other medium to very large mining or business properties where the Council has assessed that impermeable surfaces cover less than 10% of the land area. See section 5.5.3 above for more information.

- 34. To set an area-based charge: – for properties categorised as mining or business for rating purposes that are not classified as low-impact, – as a multiple of the standard charge for residential customers in a house, and – by gradually transitioning the area-based prices to the full charge applicable to the property's size over time.**

Council supports IPART's draft determination to set an area-based charge for properties categorised as mining or business for rating purposes that are not classified as low-impact and to set it as a multiple of the standard charge for residential customers. This is consistent with Council's original proposal.

Council does not support gradual transitioning of the area based charge over time as it will result in a further reduction in stormwater drainage revenue. Refer to item 30 for further detail.

- 35. To accept the Council's proposal that customers with medium to very large properties categorised as mining or business could apply to the Council for an assessment of their eligibility for the 'low impact' price.**

Council supports IPART's draft determination to allow medium to very large properties categorised as mining or business to apply to Council for an assessment of their eligibility for the 'low impact' price. This is consistent with Council's original proposal.

- 36. To request the Council to: – Publish the application process for eligibility for the 'low impact' charge on its website by 1 July 2019. – Inform customers who are billed area-based charges that they may be eligible for the low-impact price, and where they can access information about the application process.**

Council accepts IPART's draft determination request to publish the application process for eligibility for the 'low impact' charge on its website by 1 July 2019 and inform customers who are billed area-based charges that they may be eligible for the low-impact price, and where they can access information about the application process.



## **7.8 Prices for specific customers**

### **37. *To set water and sewerage prices for retirement villages based on their actual meter sizes, rather than based on the number of dwellings.***

In light of the approach taken by IPART in its pricing review, Council supports the proposal to set the water & sewerage service prices for retirement villages on their actual meter sizes.

### **38. *To set stormwater prices for retirement villages on an area basis.***

Council supports IPART's draft determination to set stormwater prices for retirement villages on an area basis. This is consistent with Council's original proposal.

### **39. *That when a property is temporarily unmetered, for the unmetered period it should be charged: – the standard 20mm service charges for water and sewerage, plus – the water usage price applied to the average daily usage over the previous twelve months, specific to that property, multiplied by the number of days that the property is unmetered, or – zero if average daily usage data is unavailable.***

Council notes this decision.

### **40. *To set water service charges for properties not connected to the water supply system to zero.***

In light of the approach taken by IPART in its pricing review, Council supports the proposal to no longer charge an availability charge for properties not connected to the network but within proximity to it.

### **41. *To set sewerage service charges for properties not connected to the sewerage system to zero.***

In light of the approach taken by IPART in its pricing review, Council supports the proposal to no longer charge an availability charge for properties not connected to the network but within proximity to it.

## **7.9 Prices for water supplied to other utilities**

### **42. *To set the price for water services supplied by the Council to Catherine Hill Bay Water Utility: – based on a non-residential water price – without including any facilitation costs (or cost savings), and – for three years, in line with all other prices in the 2019 Determination.***

Council supports IPART's approach for setting prices for water services supplied by the Council to Catherine Hill Bay Water Utility. IPART's findings are consistent with Council's approach undertaken to date and Council will continue to apply its current pricing principals in line with IPART's determination.

### **43. *To defer determining prices for water and sewerage services supplied by the Council to Narara Ecovillage.***

Council notes IPART's approach for addressing prices for water and sewerage services supplied by the Council to Narara Ecovillage (NEV). Council will continue to engage with the NEV in line with the principals presented by IPART in its final determination.

**44. To set the price for bulk water transfers between the Central Coast Council and Hunter Water Corporation as \$0.69/kL (\$2018-19) plus inflation for 2019-20, to be increased annually by inflation.**

Both Council and the Hunter Water Corporation proposed the use of the higher of the two organisations Short Run Marginal Cost (SRMC) to be used as the method to determine the price for bulk water transfers between the two organisations. IPART have resolved to maintain the current prices but provide an option for the two organisations to opt out of the determined prices and enter an unregulated pricing agreement. Council notes the flexibility provided by the ability to enter into an unregulated pricing agreement.

**45. To set the price for bulk water transfers between the Central Coast Council and Hunter Water Corporation for three years.**

Council notes IPART's approach.

**46. To allow the option for the Council to opt out of determined prices and enter unregulated pricing agreements with Hunter Water and Catherine Hill Bay Water Utility.**

In light of IPART's draft determination on the price for bulk water transfers between Council and Hunter Water Corporation, Council supports the flexibility to enter into an unregulated pricing agreement with Hunter Water Corporation.

Council however maintains its position presented in its response to IPART's Issues Paper (Appendix 5 of Council's Pricing Submission), that it does not support entering into unregulated pricing agreements with non-residential customers. As described in IPART's Determination Report, neither Council nor IPART can identify any reason that Catherine Hill Bay Water Utility (CHBWU) should receive prices different to those provided under IPART's determination for other non-residential customers. As the relevant transfer infrastructure has already been constructed, there is no scope for Council to lower its level of service to Catherine Hill Bay Water Utility (CHBWU) to justify a lower price.

As IPART has already described in its Draft Determination Report that the prices charged to Catherine Hill Bay Water Utility (CHBWU) should be based on a non-residential water price, with no facilitation costs (or savings). Council requests that IPART excludes the provision for an unregulated pricing agreement between Council and Catherine Hill Bay Water Utility.

## **7.10 Trade waste and miscellaneous prices**

**47. To harmonise trade waste prices across the Central Coast.**

In light of the approach taken by IPART in its pricing review, Council supports the draft decision to harmonise trade waste process across the Central Coast.

**48. To set the trade waste prices as listed in Appendix G for 2019-20, to increase with inflation for 2020-21 and 2021-22.**

Council notes that the prices listed in Appendix G will increase with inflation for the 2020-21 & 2021-22.

**49. To set the prices for miscellaneous service as listed in Appendix H, to increase with inflation.**

Council notes that the prices listed in Appendix G will increase with inflation for the 2020-21 & 2021-22.

**50. To defer setting maximum prices for the miscellaneous services 'Relocate Existing Stop Valve or Hydrant', 'Raise/Lower Manhole – physical adjustment' and non-standard 'Location of water and sewer mains', which the Council will charge by quote.**

In light of the approach taken by IPART in its pricing review, Council supports the proposal to defer setting maximum prices for certain miscellaneous services as long as manhole adjustment +/- 300mm are free of charge to the customer.

**51. To remove the revenue for trade waste and miscellaneous services in Table 12.5 from the notional revenue requirement (NRR).**

Council notes IPART's decision.

### **7.11 List of draft recommendation and issues for comment**

***IPART recommends "That the Council consider disaggregating its regulated water, sewerage and stormwater drainage assets into classes that reflect the underlying economic lives of the assets."***

Council will consider disaggregating its regulated water, sewerage and stormwater drainage assets and will liaise with IPART throughout the determination period.

***IPART recommends "That the council collect the information in Box 8.1 on its sewerage and trade waste costs on a catchment basis for the 2021-22 review."***

Council acknowledges IPART's request to use catchment pricing for the eight separate catchment areas however it does not support this method. Council also notes the points raised in the report prepared by Frontier Economics quoted in IPART's draft report "Economic regulatory barriers to cost – effective water recycling".

Council raises the following concerns in relation to catchment based pricing:

- The timing of catchment based pricing would be very important, due to the stage of the asset lifecycles. There would be potential for existing customers to be subsidising future customers being serviced by assets in the catchments that have already been created and are relatively new or early in their lifecycle (eg Wyong South or Kincumber STP).
- While Council has eight sewerage treatment plants, it only has three Environmental Protection Authority (EPA) licences; Bateau Bay system, Toukley System and Kincumber/Woy Woy System. The requirements in the licences drive the amount of treatment required and hence treatment costs. The treatment performance of the licences are measured at the system level i.e. combined effluent from Kincumber STP and Woy Woy STP, combined effluent from Toukley STP, Wyong South STP, Mannering Park STP, Charmhaven STP, Gwandalan STP. All effluent to the receiving environment meets all required standards under the licences.
- The existing assets have been built to service a design capacity. Some of the costs are fixed after construction and the overall treatment cost on a volumetric basis can

reduce as the design capacity is reached. Allowing competition to “cherry pick” higher cost catchments that are not at design capacity, and where competition is not avoiding costs that Council would otherwise need to occur, will leave existing customers with permanently higher prices.

- Council shares resources across treatment plants. Council does not have detailed data to determine the level of catchment cross subsidisation by shared resources. Collecting this data imposes costs that existing customers will need to bear, to potentially benefit future customers of lower cost competition.
- By narrowing the population base to fund significant renewals, or upgrades to service increased environmental outcomes would increase price volatility.
- Catchment pricing is contrary to community expectations of having one amalgamated Council. There has been no indication from the community or the Councillors that they would support different prices for different customers across the region.
- Evidence of the price based on the revenue needs i.e. operating costs (including both treatment plant and network costs), depreciation of assets, future capital works and capital works that span catchment areas.
- Developer contribution impacts.
- How the Line in the Sand will be defined based on the catchment areas to define the regulatory asset base for building block structure and required depreciation to determine prices.
- Population and cost reflectivity. Currently treatment plants have varying operational costs and varying property density. Therefore catchments with fewer properties are likely to pay more based on the cost distribution.

***IPART seeks comment on if there are benefits recovering the costs of stormwater service through separate charges or should these costs be recovered through Council rates.***

Council has committed to investigating alternate funding models during the next determination period. Council does not support recovery of stormwater drainage charges through Council rates unless an alternate offsetting source of revenue has been confirmed. Both of the former Councils used the stormwater drainage charge, as levied under the Water Management Act, to fund all the operational and capital functions related to the provision of stormwater drainage services. This funding model and scope of works has been considered and approved by IPART as part of multiple prior determinations.

Stormwater drainage is taken to include all functions associated with flood mitigation, major and minor drainage system reticulation and stormwater quality management. This includes planning, maintenance, emergency management and capital works delivery for all stormwater drainage infrastructure. Stormwater drainage infrastructure includes pipes, pits, culverts, headwalls, open channels and drains, basins, levees and pollutant traps. It does not include kerb and gutter which is part of the road asset portfolio.

Council’s delivers stormwater drainage management functions as part of the Road Transport Drainage & Waste directorate. To provide operational efficiencies road and stormwater drainage projects and maintenance actions are sometimes delivered as part of a single project with separate account numbers for the relevant asset categories/maintenance

activities. This is also the case with multiple other asset categories e.g. a water main upgrade undertaken whilst reconstructing and opening a road. Just as often, a stormwater drainage project may be delivered in isolation to any other works.

Whilst stormwater drainage management has synergies with road asset management, both the former and current Councils have stormwater drainage funding models and service levels linked to the IPART determination and associated stormwater drainage revenue. Loss of this funding, without a corresponding increase in alternate funding, would have a significant service level impact across the Council area.

## 8 Appendix B – Re-profiling Mardi to Warnervale Pipeline

### Background

As discussed in section 3.2.2 of Council's response to IPART's Draft Determination, Council does not agree with the proposed re-profiling of expenditure associated with the Mardi to Warnervale Pipeline (M2WP).

In its Determination Report, IPART raised two main concerns with Council's proposed program as outlined below:

#### **Box 5.2 Atkins Cardno's rationale for adjustments to major water projects**

##### **Mardi to Warnervale Pipeline**

Atkins Cardno found the expenditure to be prudent in terms of project need, but raised concerns over the Council's proposed project timing because:

- ▼ the Council may not be able to recruit adequate skilled project staff within the proposed timeframe, and
- ▼ a Review of Environmental Factors (REF) is required before construction can proceed.

In this response to the draft determination Council has outlined project milestones achieved since the Atkins expenditure review, discussed the allocation of resources into key project roles and confirmed the completion of the project Review of Environmental Factors (REF) including the previously outstanding ecological studies and treatment of the new Coastal Wetlands State Environment Planning Policy (SEPP).

The following additional documents provide further evidence of Council's progress made on the project since the Atkins review, which demonstrates that Council's proposed expenditure profile is both achievable and efficient.

### Project Team

The following table provides a summary of project resources currently allocated to the project. This team is continuing to progress the procurement phase of the project which is currently focused on the shortlisting of potential tenderers for the construction phase.

Mardi Dam to Warnervale Trunk Pipeline (M2WP) Project				
Resource Schedule for the CCC Project Delivery Team during Construction				
2 3				
CCC Onsite Personnel - From Start to End of the project				
ID (from Business Case)	Role	Title	Resource Status	
MPM	Management	Project Manager	On-board - [REDACTED]	[REDACTED]
MPE 1	Management	Project Engineer (Management)	On-board - [REDACTED]	[REDACTED]
MPA	Management	Project Administration	On-board - [REDACTED]	[REDACTED]
TRIM	Management	Trim Administrator	New Contractor – Recruitment to occur once Request for Tender process commences.	

SM1	Safety / Construction Supervision	M2WP SM	On-board - [REDACTED]	[REDACTED]
ENVL	Environment	Environmental Lead	On-board - [REDACTED]	[REDACTED]
COMENG	Community Engagement / Stakeholders Management	Engagement Lead	On-board - [REDACTED]	[REDACTED]
QM	Quality	Quality Manager	New Contractor - Recruitment to occur once Request for Tender process commences.	
QS	QS	Quantity Surveyor	New Contractor - Recruitment to occur once Request for Tender process commences.	



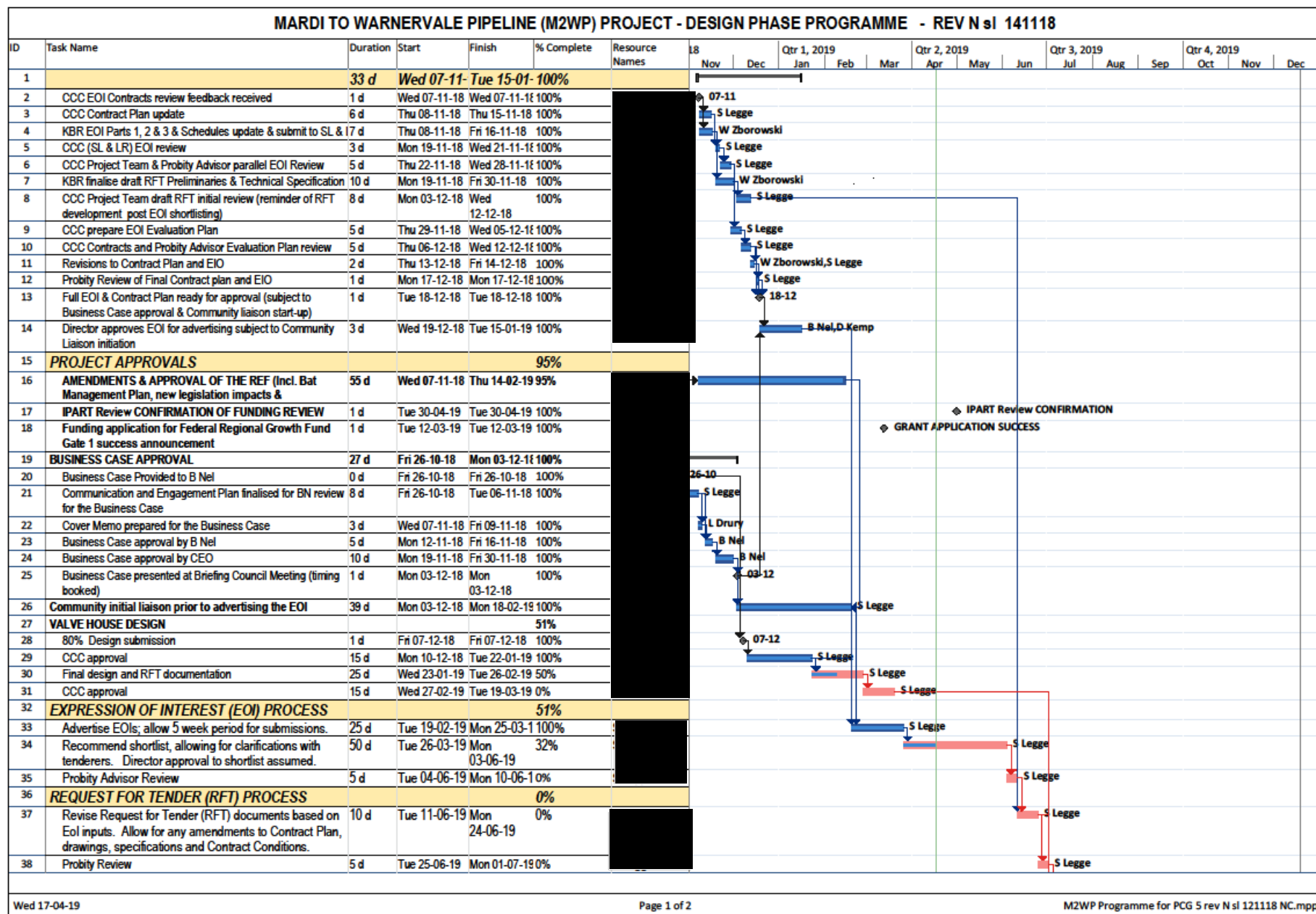
**Project Program**

The below project program has been updated to highlight progress made to date and demonstrate that Council remains on track to achieve the next significant milestone of awarding a construction contract by the end of 2019.

Key Milestones achieved following the Atkins expenditure review include:

- Approval of Gate 2 (Construction) Business Case
- Completion of project REF and supporting studies
- Completion of community consultation
- Completion of Expression of Interest (EOI) process
- Commencement of EOI evaluation

Council notes that submissions received from the recent EOI process have indicated an expected construction program of 14-16 months which is in line with Council's program that the expenditure profile has been based on. These submissions are subject to confidentiality considerations and as a result have not been included within this document.



MARDI TO WARNERVALE PIPELINE (M2WP) PROJECT - DESIGN PHASE PROGRAMME - REV N sl 141118																										
ID	Task Name	Duration	Start	Finish	% Complete	Resource Names	18	Qtr 1, 2019			Qtr 2, 2019			Qtr 3, 2019			Qtr 4, 2019									
							Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec						
39	CCC approval for the revised Contract Plan and RFT documentation.	20 d	Tue 02-07-19	Mon 29-07-19	0%																					
40	Distribute RFT documents to selected Tenderers	1 d	Tue 30-07-19	Tue 30-07-19	0%																					
41	TENDER PERIOD; allow 5 weeks for submissions.	25 d	Wed 31-07-19	Tue 03-09-19	0%																					
42	Review Tenders and prepare Report with Recommendations. Allow for CCC management and preferred tenderer clarification meetings.	35 d	Wed 04-09-19	Tue 22-10-19	0%																					
43	Cooling off period	5 d	Wed 23-10-19	Tue 29-10-19	0%																					
44	CCC approval for award of Contract. Allow appropriate duration for slotting into the appropriate Council Meeting.	35 d	Wed 30-10-19	Tue 17-12-19	0%																					
45	CONTRACT AWARD	1 d	Wed 18-12-19	Wed 18-12-19	0%																					
							PRACTICAL COMPLETION IN MARCH 2021 BASED ON 16 MONTHS PROGRAM																			

Wed 17-04-19

Page 2 of 2

M2WP Programme for PCG 5 rev N sl 121118 NC.mpr

**Review of Environmental Factors (REF)**

Following the Atkins expenditure review, Council has been able to close out the final supporting studies (Ecological and Coastal SEPP) and allow the REF to be finalised. To evidence this milestone the REF Table of Contents and Executive Summary will be provided to IPART as a separate document.

## 9 Appendix C – Cash contributions

**Table 10 - Cash contributions**

\$'000 18/19	2019-20	2020-21	2021-22	Total
<b>Water</b>				
IPART's forecast prudent and efficient capital expenditure (Table 5.3 of IPARTS' Draft Report)	14,142.9	32,842.7	27,126.9	74,112.4
Capital contributions				
Developers	-4,760.5	-4,760.5	-4,760.5	-14,281.6
NSW Government	-1,656.2	-2,847.8	-5,882.7	-10,386.7
Net forecast prudent and efficient capital expenditure included in the regulatory asset base	7,726.2	25,234.3	16,483.6	49,444.1
<b>Sewerage</b>				
IPART's forecast prudent and efficient capital expenditure (Table 5.3 of IPARTS' Draft Report)	24,438.6	25,427.2	26,124.3	75,990.0
Capital contributions				
Developers	-5,839.4	-5,839.4	-5,839.4	-17,518.1
NSW Government	-7,098.1	-6,208.9	-11,015.3	-24,322.3
Net forecast prudent and efficient capital expenditure included in the regulatory asset base	11,501.1	13,378.9	9,269.6	34,149.7
<b>Stormwater drainage</b>				
IPART's forecast prudent and efficient capital expenditure (Table 5.3 of IPARTS' Draft Report)	9,781.1	9,568.3	8,664.0	28,013.3
Capital contributions				
Developer contributions	-1,630.0	-1,630.0	-1,630.0	-4,890.0
Net forecast prudent and efficient capital expenditure included in the regulatory asset base	8,151.1	7,938.3	7,034.0	23,123.3
Total net forecast prudent and efficient capital expenditure included in the regulatory asset base	27,378.4	46,551.5	32,787.2	106,717.1

**Note: Council disputes the level of government grants used to offset IPART's forecast prudent and efficient capital expenditure.**

## 10 Appendix D – Additional Trade Waste Information

### 10.1 Additional Trade Waste and Miscellaneous charges information

Council proposed a change in the discharge limit per day as stated in section 12.2.1 Summary of our draft decisions, Page 139, section 225.

IPART's draft determination report states: "Category 3 customers are industrial in nature or discharge 20 kL per day". Council notes that this discharge limit should state ">20 kL per day"

MJA's recommended adjustment to proposed trade waste fixed prices, Table 12.1, Page 140. These recommendations refer to a reduction of Category 1 and Category S annual fees. Council has no objection to this recommendation.

**Table 10 - Fixed prices**

Category	Council's proposal	Draft price
<b>Category 1 – annual fee</b>	\$100.16	\$95.34
<b>Category S – annual fee</b>	\$165.93	\$150.86

#### Appendices G Draft trade waste prices

##### Table G.1

As outlined in its pricing submission, Council maintains its proposal for an aligned price for Category 3 Annual Fee, to ensure alignment with all other trade waste charges. The Annual Fee is an administration charge and a region based approach for this fee in isolation does not align with Council's pricing submission or the findings of the Marsden Jacobs Review. Table G.1 indicates Category 3 Annual fee to transition over a three year period aligning in 2021-22.

**Table 11 - Category 3 pricing IPART**

Category 3	2019-20	2020-21	2021-22
<b>Annual - Gosford</b>	\$1,758.44	\$1,548.02	\$1,337.60
<b>Annual - Wyong</b>	\$854.79	\$1,096.19	\$1,337.60
<b>Council's proposal – as per submission</b>	<b>\$1337.60</b>	<b>\$1337.60</b>	<b>\$1337.60</b>

##### Table G.2

The Category S descriptions are "Septage and septic effluent discharge charge" and "Septic effluent unable to discharge onsite" as per Council's pricing submission.

The description in the Draft Determination differs from the price review in respect to the Septic effluent Charge.

Draft determination 3.2 Maximum prices for Category S Septic Tank waste discharge Services, Page 14. The description in Table 4.1 "Septic effluent usage charge (\$ per kL) (Us)" differs from Council's pricing submission and the description in the draft determination, this description is also repeated in section (2):

(2) where the trade waste is septic effluent, the septic effluent usage charge per kilolitre of liquid trade waste in Table 4.1 for the applicable period.

Council encourages the consistent approach of using the description of “Septic effluent unable to discharge onsite” to allow a better understanding of this charge.

#### Miscellaneous Customer Service 6

Require a change to the title of the service within Table H.1 and the Determination from “Building over or adjacent to water and sewer advice” to “Building over or adjacent to water and sewer advice (existing structures)” to better describe the service provided and avoid confusion with Service 24 Water & Sewer Building Plan Assessment which assesses building over sewer requirements for new developments.

**Table 12 - Miscellaneous customer service 10 - connection of water service**

<b>10 c) Water service connection short &amp; long service (20mm)</b>	
<b>Council's pricing submission:</b>	\$1392.80
<b>IPART Draft Determination:</b>	Transition path: 2019-20: \$719.26 2020-21: \$1,067.92 x CPI1 2021-22: \$1,416.48 x CPI2
<b>10 d) Water service connection short &amp; long service (25mm)</b>	
<b>Council's pricing submission:</b>	\$1626.30
<b>IPART Draft Determination:</b>	Transition path: 2019-20: \$719.26 2020-21: \$1,186.66 x CPI1 2021-22: \$1,653.95 x CPI2

IPART has proposed a transition path for the two water service connection charges that typically relate to residential properties:

- Water service connection short & long service (20 mm)
- Water service connection short & long service (25 mm)

Council took the opportunity to review and standardise the true cost of providing water service connections to customers, when requested upon application, and to eliminate the provision of services by quotation. The charge proposed by Council represents the true cost of provision of each of these services, including costs of labour, equipment hire and materials. The methodology used to calculate the proposed fees was in accordance with IPART instructions, and approved by IPART's consultant Marsden Jacob Associates (MJA).

The charges for the provision of water services of all sizes are a ‘one off’ charge to the customer for a service provided upon application. Provision of a transition path is therefore not necessary as there is no bill shock for a one-off service payment.

It is noted that in the 2012-13 price determination for Gosford City Council and Wyong Shire Council, the fees for the provision of these services was heavily subsidised by the wider

customer base. Subsidisation of charges for these services was further compounded due to extension of the period of price determination following amalgamation of the two councils.

If the proposed IPART transition path is adopted, the cost of providing this service to individual customers, along with the associated internal labour costs, will continue to be heavily subsidised by the broader customer base. The estimated revenue loss would be in order of:

**Table 13 - Revenue loss estimates**

	2019-20	2020-21
<b>10c)</b> Water service connection short & long service (20mm)	\$519,972.88 (\$673.54 * 772)	\$250,807.36 (\$324.88 * 772)
<b>10d)</b> Water service connection short & long service (25mm)	\$37,188.64 (\$907.04 * 41)	\$18,025.24(\$439.64 * 41)

#### Miscellaneous Customer Service 12 – Standpipe Hire Fee

**Table 14 - Miscellaneous customer service 12 - standpipe hire fee**

<b>12 a) 25 mm</b>	
<b>Council's pricing submission:</b>	\$176.87
<b>IPART Draft Determination:</b>	\$173.46
<b>12 b) 63 mm</b>	
<b>Council's pricing submission:</b>	\$1,195.65
<b>IPART Draft Determination:</b>	\$1,101.56

IPART calculated the Standpipe Hire Fee in accordance with the formula for calculating the charge for other meter sizes outlined in Table 1.1 (page 5) of Maximum prices for water, sewerage, stormwater drainage and other services from 1 July 2019 ("Draft Determination"). Council agrees with the revised charges proposed by IPART.



## Miscellaneous Customer Service 13 – Standpipe Water Usage

**Table 15 - Miscellaneous customer service 13 - standpipe water usage**

<b>13 – Standpipe Water Usage</b>	
<b>Council's pricing submission:</b>	\$2.20/kL
<b>IPART Draft Determination:</b>	\$1.93/kL (19/20)
<b>IPART Price Review:</b>	\$2.20/kL (18/19)

IPART has transcribed Council's original price proposal of \$2.20/kL (\$2018/19) for standpipe water usage in Appendix H (page 228) of its Review of Central Coast Council's water, sewerage and stormwater drainage prices ("Price Review"). As the price is proposed to be equivalent to the customer water usage charge, Appendix H should be amended to a charge of \$1.90/kL (\$2018/19) (\$1.93/kL (19/20)) for this service, in accordance with Schedule 5 Table 5.1 (page 21) of its Draft Determination.

**Table 16 - Miscellaneous customer service 15**

	<b>Council's pricing submission:</b>	<b>IPART Draft Report (Appendix H pg 228):</b>	<b>IPART Draft Determination:</b>
<b>15 a) Inspection of new water and sewer assets - including encasements</b>	\$118.77	\$118.77	15 Inspection of new water and sewer assets (including encasements) a) water & pressure sewer main (\$120.79 + \$6.34/m of water & pressure sewer main) b) gravity sewer main (\$120.79 + \$8.45/m of gravity sewer main)
<b>15 b) + water &amp; pressure sewer main</b>	\$6.23/m	\$6.23	
<b>15 c) + gravity sewer main</b>	\$8.31/m	\$8.31	

The price descriptions specified in the IPART Price Review for Services 15 b) and 15 c) require modification to clarify that the charge is per meter of main inspected.

The description used by IPART in the Draft Determination (see above) provides greater clarity of the service provided. Council recommends adopting this description in the final determination.

## Miscellaneous Customer Service 21 –Water or Sewer Engineering Plan Assessment

- Require amending the wording of item 21 a) to better clarify the scope of developments that the charge applies to and avoid customer and staff confusion.

Change description from "Small Projects – Relocations, Private SPS and/or development ≤10 lots or extension to properties outside area" to "Small Projects – Residential Development ≤10 lots (including associated mains relocations) or mains extension to existing properties outside service area (charged per application water or sewer)"

- Require amending the wording of item 21 b) to better clarify the scope of developments that the charge applies to and avoid customer and staff confusion. Change description from "Medium Projects > 10 and < 50 lots, and mains relocation" to "Medium Projects > 10 and ≤ 50 lots (including associated mains relocations), new or modification to existing private sewage pumping stations or medium density development (charged per application water or sewer)"
- Require amending the wording of item 21 c) to better clarify the scope of developments that the charge applies to and avoid customer and staff confusion. Change description from "Large projects > 50 and < 150 lots or large or medium density developments" to "Large projects > 50 and ≤ 150 lots, including associated mains relocations (charged per application water or sewer)"
- Require to amend the wording of item 21 d) to better clarify the scope of developments that the charge applies to. Change description from "Special Projects (roads & rail or SPS Adjustments, relocations, development water catchment areas, or subdivisions > 150 lots)" to "Special Projects (Road and/or Rail Authority asset relocations/adjustments, new or adjustment to existing water or sewage pumping stations, assessment of consultant reports for development within water catchment areas (NorBE) or subdivisions > 150 lots)"

#### Miscellaneous Customer Service 21 –Water or Sewer Engineering Plan Assessment

- Require amending the wording of item 22 c) to better clarify the scope of developments that the charge applies to. Change description from "RFB and Dual Occupancies" to "Multi Residential Development including units, granny flats and dual occupancies"

#### Miscellaneous Customer Service 24 –Water & Sewer Building Plan Assessment

- Require a change to the title of Service 24 from "Water & Sewer Building Plan Assessment" to "Water & Sewer Building Plan Assessment (Review building over or adjacent to water or sewer mains requirements for new structures)" to better describe the service provided and avoid confusion with Service 6 'Building over or adjacent to water and sewer advice' which assesses compliance with historical building over sewer requirements for existing structures.