

Reference: Submission IPART Rural Water Pricing



20 October 2020

Review of Water NSW's rural bulk water prices
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop, Sydney NSW 1240

Dear Sir/Madam

Review of Water NSW's Rural Bulk Water Prices

Lithgow City Council wishes to provide this submission in response to the Issues Paper of the Review of Water NSW's rural bulk water prices. The submission addresses specific questions raised in the Issues Paper. It also gives coverage to other issues that Council considers relevant.

One of the principal concerns for us is the concept of an annual determination. This is not supported. Council's preference is a 4 year determination as it is considered that this provides enhanced price stability around which a more certain operating environment can be planned. These pricing determinations can have major implications on Council's operations and the more frequent 12 month timing would make it difficult to ensure that we can achieve full cost recovery. It is also difficult with regard to budget preparation as the determinations are typically delivered after the Council has adopted its budget for the year ahead. Council could in some circumstances be left with increased operating costs and little chance to recoup these as the community and Council have in a sense "signed off" on the fees set for that year.

Local Water Utilities, under the Best Practice Management of Water Supply and Sewerage Guidelines, are required to apply appropriate water pricing in accordance with the guidelines. The guidelines with regard to pricing place emphasis on utilities to influence demand through usage based pricing and require that charges must be set to recover at least 75% of revenue through water usage charges.

It is acknowledged in the Guidelines that this raises issues of volatility but it is something that Local Water Utilities have had to plan for and ensure adequate cash reserves are held to flatten out revenue fluctuation. As the State Government sees that this is an appropriate mix of fixed and usage charges, Council would appreciate consideration of a similar mix being applied to the FRWS structure.

Council notes the comment by IPART that "most of Water NSW's costs are fixed, and do not vary with water sales. So when water usage is low, Water NSW's lower revenue is not matched by a commensurate reduction in costs". We do not accept that this is the case. As a treated water customer the primary cost is associated with the operation of the water treatment plant. As demand/throughput increases, the treatment cost increases.

Also, the interface between Lithgow Council and WaterNSW is quite unique. Overall, the city requires approx. 2200 ML/a. Under normal operating conditions Water NSW supplies the villages in the Local Government Area (LGA), whereas the Lithgow Water Supply provides water to Lithgow and the South Bowenfels area. When and as required either system can supply the whole LGA, this can occur due to planned outages, emergency failure, drought response etc.

For the last 2 years, Council has sought to increase its usage from FRWS within its approved allocations. This presents a number of issues, firstly WaterNSW cannot and has not been able to supply the full Council LGA for extended periods due to constraints at the Water Treatment Plant and pipe failures. Whilst we have attempted to increase the usage, it is still limited to 800ML, against an allocation under our Water Supply Agreement of 1778ML/a from FRWS. Council considers that we are paying an access charge for water that we cannot access. This is resulting in increased cost to the residents of Lithgow.

Further to the above, there was a failure on a section of the FRWS pipeline at Wallerawang which is used to deliver water to Lithgow. This pipeline failed and is yet to be repaired, with an expected commencement of December 2020. This has limited the amount of water Council can utilise. The current average usage for what is being supplied is 2ML/d and if this was to continue for a period of 12 months Council usage would be approximately 730ML. This is outside Council's control, yet we are being invoiced the full access charge when we have been limited to less than half of our allocation.

When access is not available, which occurs regularly, there is no reduction or compensation for the periods that Council cannot access water. Council seeks consideration of this in IPART's determination.

Secondly, Council has had to reduce its demand on the FRWS due to the Drought Management Strategy. Whilst it is acknowledged that the mix of fixed and usage charges is set to ensure that WaterNSW recovers its full cost, there is little consideration of the impact on Council. Council asks that IPART consider a stepped access charge in line with the drought restriction levels or some other volatility factor. Council would also seek to include a provision that when Council has zero allocation under the Drought Management Strategy that there are no charges incurred.

Further, the current mix of fixed and usage charges does not promote water conservation. Had it not been for the cooperation and a willingness to comply with the Drought Management strategy by all of the users of the Fish River Water Supply, the Oberon Dam would have been considerably impacted. This willingness has come at a cost to Council's residents who are being punished (we pay for water we cannot access and that which we can access then comes at a higher price).

IPART and WaterNSW have proposed charges based on historical water use. Council has sought to increase our water take but this is not reflected due to the inability of WaterNSW to supply and further compounded by the fact that WaterNSW does not have meters installed to measure the amount of water that is drawn into Lithgow when additional water is taken. To date WaterNSW have tried to pass the cost for the water meter installation on to Council.

There are also a number of inefficient practices similar to those identified in the Review of Prices for Water NSW Greater Sydney, such as additional monitoring. WaterNSW and Council undertake duplicate monitoring activities with regard to drinking water monitoring. Council undertakes sampling in accordance with the Australian Drinking Water Guidelines and under the NSW Health Drinking Water Monitoring Program this is free of charge to Council. This program does not extend to Sydney Water Corporation or Hunter Water Corporation, but would be available to WaterNSW for samples associated with the FRWS.

Council has offered to support efficiency gains to WaterNSW with regard to water meter reading. Council has recently implemented a smart water meter program and offered the use of this infrastructure to WaterNSW to capture their billing meters removing the need to undertake weekly manual reads.

It is unclear from the WaterNSW Pricing Proposal, the Issues Paper or the Review of Prices for Water NSW Greater Sydney how WaterNSW accounts for expenditure in the FRWS. The structure of WaterNSW has the FRWS cluster operating within the Greater Metropolitan

Cluster and customers of the FRWS are members of the Greater Metropolitan Customer Advisory Group. Prior to the merger of Sydney Catchment Authority and State Water, the limit of responsibility was a point on the pipeline at Leura. Council is aware that the remit of FRWS has extended to include the operation and maintenance of the Upper Blue Mountains infrastructure. We promote the view that the operation and maintenance costs associated with the Upper Blue Mountains are not being funded by customers of the FRWS.

The WaterNSW Submission does not acknowledge that they are also a customer of the FRWS nor is there any analysis of the expected transfers to the Upper Mountains which is a factor when determining the appropriate charge.

Being a Local Water Utility who is also required to fully recover its costs, the proposed charges will require an increase to Council charges if WaterNSW are not able to supply additional water as previously provided. The impact to the residents of Lithgow per assessment based on the proposed charges by WaterNSW calculated using the annual average usage is approximately \$13 per assessment or 6.6% and based on IPART's 4 year FCR estimate this would increase by \$23 per assessment or 12%. The Lithgow community already considers that the current charges are excessive. Lithgow Council's SEIFA indexes indicate that the Lithgow LGA is more socio-economically disadvantaged than neighbouring areas and residents would have difficulty affording above CPI increases in water charges.

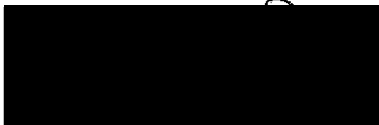
Whilst water charges are not subject to the Local Government rate peg it is important to note that IPART have determined the 2021/22 rate peg for NSW councils at 2.0%, of which 0.2% is included for the cost of the 2021 local government elections.

It is important WaterNSW and IPART find efficiencies to reduce the likely rising cost with the FRWS Scheme. It would be an unfortunate outcome that these costs would be passed on to the community in such a large increase or that Council would have to reduce levels of service to offset such increases.

It is undoubted that by some measures, particularly commercial, the establishment of WaterNSW as a State Owned Corporation has been successful. But this operating environment does not sufficiently incentivise WaterNSW to limit draw down of water from their network. It seems this obligation falls to customers (Council and community) but there is insufficient offset or recognition to such achievements by reduced charges.

Please contact me if any of the above requires further explanation.

Yours sincerely



Craig Butler
GENERAL MANAGER