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## **SUBMISSION TO IPART**

**Gosford City Council's submission to IPART's draft Determinations and Reports for the review of prices and developer charges**

**15 March 2013**

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## Executive summary

This document presents Gosford City Council's response to the draft reports and determinations produced by IPART as part of its:

- *Review of prices for water sewerage and stormwater services for Gosford City Council and Wyong Shire Council, and*
- *Review of developer charges for Gosford City Council and Wyong Shire Council.*

IPART's draft decisions regarding the Price Review have a significant impact on Council's water business' financial sustainability. Council presents the details of this impact (using key credit metrics and ratings) and proposes the additional revenue that is required to achieve a satisfactory outcome.

Council identifies a number of IPART modelling errors, the rectification of which, results in changes to operating costs. Council also provides further justification for other operating costs to be included in revenue needs calculations. These changes to operating costs increase the revenue required for operating expenditure.

Council provides additional clarity and detail regarding its capital program and expects that the outcomes will increase the revenue required for capital investment.

Specific changes are sought and feedback is provided regarding the application of some prices.

Council seeks to work with IPART to rectify identified errors and address financial sustainability issues associated with the Price Review. Council specifically requests to view IPART's financial model prior to completion of the final determination and report.

Council requests only minor administrative changes to the Developer Charges determination and report.

## 1 Introduction

In September 2012, Gosford City Council (Council) made a submission to IPART's *Review of prices for water sewerage and stormwater services for Gosford City Council and Wyong Shire Council*.

Council's submission reported on performance over the current price period (1 July 2009 to 30 June 2013) and presented forecast costs, revenue needs and prices for the price period commencing 1 July 2013.

The submission also included Council's response to IPART's *Review of developer charges for Gosford City Council and Wyong Shire Council*.

This document presents Council's response to IPART's draft Determinations and Reports for both the review of prices and review of developer charges.

## 2 Financial sustainability

As set out in the Independent Pricing and Regulatory Tribunal Act 1992, IPART is required, among other matters, to consider the financial viability of the business when setting prices. Financial viability is defined as:

*The cost of providing the services concerned, the appropriate rate of return on public sector assets; and the impact on pricing policies of the agency's borrowing, capital and dividend requirements.<sup>1</sup>*

IPART's Research Discussion Paper Financeability Test in Price Regulation (Sept 2012) sets out the reasons and basis upon which this element of establishing prices is to be undertaken, in particular:

*The financeability test helps us (IPART) assess the impact of our price determinations on the ability of a utility to:*

- *fund the provision of services*
- *service and repay debt*
- *access debt markets for new borrowing requirements.*

*We (IPART) use the financeability test as a check on the reasonableness of the proposed revenue or price path. We expect a utility will be financially sustainable over the life of the assets given that the building block model allows a utility to recover its efficient costs. However, in some circumstances a utility may encounter short-term financial sustainability issues. This can be due to differences in the timing of the recognition of expenses and income.<sup>2</sup>*

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<sup>1</sup> Gosford City Council and Wyong Shire Council Prices for water, sewerage and stormwater drainage services from 1 July 2013 to 30 June 2017 Water — Draft Report, Section 2.2, February 2013

<sup>2</sup> Financeability test in price regulation Research — Discussion Paper, Section 1, September 2012

It is within this context that Council considers that the allowed revenue included in IPART's Draft Pricing Determination places at significant risk the financial sustainability of Council's existing water business, and perhaps more importantly, that it will result in the Central Coast Water Corporation (CCWC) being in a financially precarious position at the planned commencement of its operation (1 July 2017).

The restricted timeframe allowed by IPART for Council to respond to this complex issue has precluded a detailed analysis of IPART's financial model or a detailed analysis as to all the options available to address the issue. In the time available, Council has undertaken its own analysis with the outcomes and associated risks set out below.

## 2.1 Critical assumptions

- The analysis has been undertaken on Council's water business, the financial position of which was presented in the AIR.
- Over the current price determination period Council has foregone \$16.7M (\$12/13) of revenue (as detailed in section 3.3.1 of its pricing submission). This revenue shortfall has resulted in Council incurring a higher level of borrowing to fund its capital expenditure than was expected at the time of the last pricing determination.
- Whilst IPART has not allowed for the recovery of the costs associated with the establishment of the CCWC in the price of services, the Councils under the Memorandum of Understanding with the NSW Government have agreed to transfer the Councils' water supply authority functions to the Corporation in accordance with the Central Coast Water Corporation Act 2006. The associated establishment costs will therefore still be incurred by Council's water business. These costs have therefore been included in Council's assessment of financial sustainability.
- Council as the "owner" of the water business anticipates a dividend as allowed for in IPART's WACC assessment. IPART's WACC parameters indicate that this should be 8% of the theoretical equity (40% of the business value as assessed within the regulatory framework). Council's financial model used to assess the financial sustainability has assumed a dividend of less than this, in line with the framework for dividends as required by the NSW Office of Water. On average, if the theoretically provided dividend was paid, the level of dividend would increase by approximately \$20m per annum above that currently forecast.<sup>3</sup>
- The model has adopted the operating and capital costs IPART has allowed for in the price. This does not reflect the 'cost shock' applied to the business as a result of the reductions in labour costs applied by IPART. The only way that such a reduction can be achieved is through redundancies. Council refutes that it has capacity to reduce the size of its workforce. Comparative data indicates that Council has consistently been below or at the average number of FTE's per 1000 properties for NSW water utilities over the last 10 years<sup>4</sup>.

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<sup>3</sup> Unlike Government Corporations the dividend payable to Council from its water and sewerage business is currently restricted by regulation.

<sup>4</sup> NSW Office of Water, Gosford City Council TBL Water Supply Performance Report and Sewerage Performance Report - 2010-11, 2012.

- The financial model has adopted actual costs of debt where this is known and for future debt current market rates have been adopted in Council's assessment. This is in accordance with the requirements of Section 6 of IPART's Research Discussion Paper.
- The financial model has not been adjusted for IPART's calculation errors identified by Council in the balance of this submission.

## 2.2 Outcomes

IPART in its Research Discussion Paper identified four key credit metrics that are to be considered in assessing financial sustainability (Table A1). The key credit metric outcomes from the draft determination for the combined water, sewerage and stormwater drainage business (referred to as the 'water business') is presented in Table 1.

**Table 1 Key credit metric outcomes from the draft determination**

	2013/14	2014/15	2015/16	2016/17
Funds from Operation Interest Coverage	1.62	1.37	1.16	1.55
Funds from Operation/ Total Debt (%)	11%	14%	10%	13%
Net Cash Flow/ Total Capital Expenditures (%)	28%	41%	65%	94%
Net debt to regulated asset base	27%	21%	28%	28%

Based upon the credit ratings benchmark ranges included in the IPART's Research Discussion Paper (Table A2), the resulting credit ratings are presented in Table 2.

**Table 2 Key credit rating outcomes from the draft determination**

	2013/14	2014/15	2015/16	2016/17
Funds from Operation Interest Coverage	Caa*	Caa*	Caa*	Caa*
Funds from Operation/ Total Debt (%)	Baa	Baa	Ba*	Baa
Net Cash Flow/ Total Capital Expenditures (%)	B*	B*	B*	B*
Net debt to regulated asset base	Aa	Aaa	Aa	Aa

\* Non investment grade

As noted in the assumptions, Council believes that it will be unable to achieve in the short term the cost reductions required to achieve IPART's assessment of efficient cost and therefore the credit rating for the Funds from Operations/Total Debt in 2013/14 and 2014/15 are also likely to fall below investment grade credit rating i.e. all credit rating metrics except the Net Debt to Regulated Asset Base used by IPART to assess financeability are likely to be below investment grade credit rating throughout the price determination period.

## 2.3 Implications

The critical implication for Council's water business is the ability to borrow, and the associated costs of borrowing. If the cost of borrowing increases, then the credit rating metrics will deteriorate further. The alternative is not to deliver the capital program i.e. reduce borrowings. Such a strategy will result in additional risk to the business.

Council's water business represents more than 50% of the CCWC and the credit rating metrics that will be inherited by CCWC from Gosford imply that this new business will commence in an exceptionally difficult financial position. This will be contrary to the Principal Objectives as set out in the Central Coast Water Corporation Act:

- (1) *The principal objectives of the Corporation are as follows:*
- (a) *to promote the efficient delivery of water supply, sewerage and drainage services for the long-term interests of consumers with respect to price, quality, safety, reliability and security of supply,*
  - (b) *to maximise water conservation, demand management and the use of recycled water,*
  - (c) *to be a successful business and, to this end:*
    - (i) to operate at least as efficiently as any comparable business, and*
    - (ii) to maximise the net worth of the constituent councils' investment in the Corporation.*
  - (d) *to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates,*
  - (e) *where its activities affect the environment, to conduct its operations in compliance with the principles of ecologically sustainable development contained in section 6 (2) of the Protection of the Environment Administration Act 1991.*
- (2) *Each of the principal objectives of the Corporation is of equal importance.*

Whilst the financial performance as reported in the Council's Annual Financial Statements is not a factor considered by IPART in its price determination framework, it is the outcome that will be reported publicly to its stakeholders each year. Even if Council can reduce its costs in line with the revenue, capital and operating costs allowed for in the draft pricing determination, Council will report losses totalling in excess of \$47m (\$12/13) over the forthcoming price determination period. This will clearly give the stakeholders, including finance providers, an adverse view of the water business's financial performance. From Council's perspective this is highly undesirable.

## **2.4 Requirements from the regulatory decision**

Limited time has precluded a detailed analysis of all of the options that could be adopted to address the matter; however Council's preliminary analysis has identified the minimum need for additional revenue to achieve investment grade credit metrics by the end of the determination period. The additional revenue requirements and resulting outcomes are presented in Table 3, Table 4 and Table 5.

**Table 3 Indicative additional revenue requirements (\$12/13 000s)**

	2013/14	2014/15	2015/16	2016/17
Indicative additional revenue	7,250	8,500	9,250	10,750
% increase on Draft Target Revenues	9%	10.1%	10.6%	11.9%

**Table 4 Revised credit metrics with additional revenue**

	2013/14	2014/15	2015/16	2016/17
Funds from Operation Interest Coverage	2.22	2.11	2.00	2.78
Funds from Operation/ Total Debt (%)	16%	23%	18%	24%
Net Cash Flow/ Total Capital Expenditures (%)	40%	63%	109%	152%
Net debt to regulated asset base	26%	19%	25%	23%

**Table 5 Revised credit ratings with additional revenue**

	2013/14	2014/15	2015/16	2016/17
Funds from Operation Interest Coverage	Ba*	Ba*	Ba*	Baa
Funds from Operation/ Total Debt (%)	A	A	A	A
Net Cash Flow/ Total Capital Expenditures (%)	Ba*	Ba*	Baa	A
Net debt to regulated asset base	Aa	Aaa	Aa	Aa

\* Non investment grade

The above results take no account of:

- Council's inability to achieve the cost reductions within IPART's draft report.
- The additional notional dividend that IPART includes in its calculations of revenue via the WACC.
- The implications of any unforeseen costs that may result during the determination period (under IPART's pricing framework the WACC includes an allowance for such systematic occurrences).

Council considers it essential to ensure the long term financial sustainability of its water business and to ensure that a financially viable business is transferred to the CCWC on 1 July 2017. Council requests IPART to work with it to address this critical matter via an increase in revenue such that the long term financial sustainability of the water business is assured.



### **3 Prices Draft Report**

This section outlines Council's response to IPART's document *Gosford City Council and Wyong Shire Council: Prices for water, sewerage and stormwater drainage services from 1 July 2013 to 30 June 2017, Water - Draft Report, February 2013.*

#### **3.1 Approach to setting prices**

##### **3.1.1 Length of determination period**

*Draft decision 1, p.34*

Council supports IPART's adoption of a four year price period which is in line with Council's submission.

##### **3.1.2 Use of a glide path to set target revenue**

*Draft decision 2, p.37*

Council supports smoothing price increases to avoid price shocks where possible. However, the use of a glide path and the manner of application affects Council's financial sustainability. Further to the overall financial sustainability issues arising from the draft determination (as presented in section 2), Council's comments on how the glide path has been applied are presented in section 3.2.2.

##### **3.1.3 Demand volatility adjustment mechanism**

*Draft decision 4, p. 40*

Council supports the introduction of the demand volatility adjustment mechanism which is in line with Council's submission.

##### **3.1.4 Interchange price for Hunter Water Purchases**

*Draft decision 5, p. 42*

Council supports the specific exclusion of any future 'water banking' transfers from the inter-regional transfers.

Given the limited time available to provide a response to the draft report Council has not been able to analyse this issue in detail.

However, Council has no objection to the approach taken by IPART to calculate the price of interchange transfers between Hunter Water and the Councils.

Council suggests that the wording of section 3.6 of the report be improved to provide greater clarity of IPART's approach.

##### **3.1.5 Output measures**

*Draft Decision 6, p45 plus Appendix B and C*

*Table B.1*

Council supports IPART's adoption of its proposed output measures in Table B.1. However, Council does not support the inclusion of minimum water pressure as an output measure for the reasons outlined below.

The output measures in Table B.1 are intended to be *key performance indicators*. They should be indicators which can be monitored through time and compared to other utilities in order to assess whether Council's performance is appropriate or improving (declining).

Council has aligned its proposed output measures in Table B.1 with indicators used in the National Water Commission's National Performance Report (NPR) to ensure the output measures are relevant and consistent with other utilities. The relevancy and consistency of NPR indicators is facilitated through formally documented definitions and calculation instructions, and with periodic independent auditing of each utility's calculation methodologies and indicator values.

The additional output measure proposed - minimum water pressure of 12m at the property connection - is actually a *design standard/service standard* which guides engineering calculations and system modelling. It is not a performance indicator. No detail is provided in the report as to how or what IPART expects Council to report on for this output measure, but there is no NPR definition to provide a standard methodology. Council requests that minimum water pressure be excluded from the output measure Table B.1 as it is not a relevant or comparable performance indicator.

#### *Table B.2*

Table B.2 presents major Joint Water Supply (JWS) projects managed by Gosford. The text supporting the table should make clear that the values presented are 50% of the total project cost – with the other 50% to be paid by Wyong. The table should not present "Gosford Council's share of Wyong JWS Program budget", this is the value that Gosford would have paid to Wyong Council for 50% of Wyong managed JWS projects proposed in the Councils' submissions. The value itself is now incorrect as IPART's draft decision disallows some of Wyong's JWS capital expenditure. Additionally, the inclusion of an agglomeration of different Wyong managed projects as single output measures for Gosford Council does not facilitate meaningful reporting. Table B.2 should only present the Gosford managed JWS projects.

Alternatively, IPART should consider preparing one table with both Gosford and Wyong managed major JWS projects and present each 'allowed' project once at its full cost. This would facilitate more meaningful reporting of progress throughout the period, rather than duplicating reporting on the same projects (at 50% value) in two places.

#### *Table B.2 and B.3*

Although the notes below these tables state that the "list of projects has been amended to reflect our decisions on capital expenditure" the values do not include the 5% efficiency reduction. Although Council is seeking a change to the efficiency reduction (discussed in section 3.4.2), the values in Table B.2 and B.3 should be consistent with the other decisions (i.e. include the impact of the adopted efficiency saving) made by IPART to enable reconciliation and meaningful reporting in the future.

#### *Table C.1*

The Wyong Council output measure in Table C.1 should not include any reference to Gosford Council's Environment Protection Licence (EPL) 1802. Table C.1 should include the correct EPL number for Wyong's EPLs, or not include reference to the specific EPL number(s).

### *Table C.2*

Table C.2 is intended to major Joint Water Supply (JWS) projects managed by Wyong. Council recommends IPART consider the suggestions provided in the above comments on Table B.2 to improve presentation of JWS projects.

If IPART intends to maintain a separate JWS table for each Council, the source of information in the Wyong JWS table should not be listed as Gosford Council, and the project “Gosford Council’s share of Wyong JWS program budget” be removed.

## **3.2 Revenue requirements**

### **3.2.1 Notional revenue requirement**

*Draft Decision 7, p51*

Council believes that the notional, and consequently the target revenue requirements need to be adjusted for the range of changes to operating and capital cost as outlined in sections 3.3 and 3.4 and the financial sustainability of the business as outlined in section 2.

### **3.2.2 Target revenue requirement**

*Draft Decision 9, p53*

The glide path has been calculated on, and the report presents the notional and target revenue for the water business as a whole, and does not present the glide path’s affect on each individual service (i.e. water, sewerage, stormwater drainage).

When the impact of the glide path is examined for each service individually (as shown in IPART’s financial model), the inappropriate impacts are revealed. For example, the glide path does not allow the stormwater business to recover its operating costs, or regulatory depreciation in the first year. Council notes that the under-recovery of lower bound costs (as caused by the glide path for the stormwater business) unless explicitly disclosed is contrary to the National Water Commission urban water pricing principles adopted by IPART.

Council’s submission specifically requested that IPART give due consideration to the financial sustainability of stormwater drainage as a standalone business. As the stormwater drainage business is to remain with Council and not be transferred to the CCWC, establishing this business as a financially sustainable standalone business is essential.

Council requests IPART apply the glide path to each individual service in a manner which allows recovery of, at least, lower bound costs.

### **3.2.3 Revenue from trade waste, miscellaneous and other charges**

*Draft decision 11, p.54*

Council has no objections to the value of forecast revenue from trade waste, miscellaneous and other charges.

## **3.3 Operating expenditure**

### **3.3.1 Council’s position regarding specific operating cost adjustments**

### **Central Coast Water Corporation (CCWC)**

Council understands the approach IPART has taken in relation to deferring any recovery of CCWC transition (set up) costs until the CCWC is the price regulated entity. The Councils have resolved to progress the transfer of functions to the CCWC in a staged approach over the price period with full transfer of water and sewerage functions by 1 July 2017. Incurring transition costs before the associated revenue is recovered creates exacerbates cash flow management issues for Council as highlighted in section 2.

The functions of the former Gosford Wyong Councils' Water Authority (GWCWA) have been transferred to the CCWC, with enhanced governance processes (and associated costs) as required by the CCWC Act. These functions have long been accepted by IPART as acknowledged costs of governing a joint water supply. The Councils sought \$0.6M (\$0.3M per Council) per annum for CCWC operational costs over the period. Council requests IPART allow recovery of these prudent operating costs.

**Table 6 CCWC operating costs to be included in allowed operating costs (\$12/13 '000s)**

	2013/14	2014/15	2015/16	2016/17
CCWC operating costs - water	150	150	150	150
CCWC operating costs - sewerage	150	150	150	150

### **Labour**

IPART's report states Gosford Council's "labour costs represent over 35% of total operating expenditure". This value is incorrect. During their review, Council explained and provided detailed reconciliations to IPART's consultants Oakley Greenwood (OGW) regarding Council's labour cost categorisation in the AIR. In the base year, 2011/12, Council's actual labour costs comprised 33% of total operating costs.<sup>5</sup>

This percentage is in line with other water utilities. For example, 34% of Sydney Catchment Authority's operating costs in 2011/12 were employee related<sup>6</sup>, and 40.4% of Hunter Water operating costs relate to salaries and wages in 2012/13<sup>7</sup>.

The draft report fails to make comparisons with these utilities. The single direct comparison with Wyong Council's labour percentage costs is overly simplistic and does not give appropriate consideration to operational and reporting differences between the Councils' water businesses.

Based on a general understanding of Wyong's AIR reporting (but in the absence of detailed analysis of Wyong accounts and AIR) key aspects which are likely to be causing the apparent (and slight) disparity between Gosford and Wyong labour costs are:

<sup>5</sup> This 2% difference represents approximately \$2M in operating costs.

<sup>6</sup> Sydney Catchment Authority Submission to the Independent Pricing and Regulatory Tribunal, Review of the Operating Licence and Prices for the Sydney Catchment Authority 2011, p. 52

<sup>7</sup> Hunter Water Corporation, Submission to IPART, on prices to apply from 1 July 2013, p.37

- Gosford incurs more labour costs directly for the operation of the joint water supply (e.g. the Central Coast's largest dam sits within the Gosford LGA). The full value of these labour costs appear in Gosford's AIR in the 'labour' category, with the associated contribution to and from Wyong being reported in the 'other' category.
- costs related to communications, finance, and geographic information system (GIS) management are reported as labour costs in Gosford, but are (understood to be) reported as corporate costs in Wyong

IPART's reduction to Gosford Council's actual labour costs implies that there is capacity to reduce the number of full time equivalents (FTEs) employed by Council. IPART fails to include any analysis or comparison of FTEs with other businesses. Gosford Council has consistently remained at or below the average number of FTE's per 1000 properties in comparison to other NSW water utilities.<sup>8</sup>

Council requests IPART adopt the labour costs recommended by OGW and presented in Table 7.

**Table 7 Labour costs to be included in allowed operating costs (\$12/13 '000s)**

	2013/14	2014/15	2015/16	2016/17
Labour operating costs - water	7,198	7,198	7,198	7,198
Labour operating costs - sewerage	7,107	7,107	7,107	7,107
Labour operating costs - stormwater	2,338	2,338	2,338	2,338

### **Step changes**

IPART has incorporated OGW's recommended step changes into future operating costs. However, OGW recommended against/inadvertently omitted the inclusion of legitimate step changes. Council seeks inclusion of the step changes that are discussed below.

OGW accepted the step increase associated with the Hawkesbury River bridge painting, but applied this only to water costs. The proposed step increase is required in both water and sewerage (as has consistently been presented by Council) since there are both water and sewerage mains that need to be temporarily relocated to enable the bridge to be painted by NSW Roads and Maritime Services (RMS). The step change in costs should also be accepted and applied to sewerage for the same reasons it was accepted for water.

OGW suggested that further information (i.e. description, driver, cost derivation and choice of timing) was required to confirm the prudence and efficiency of other step changes, including additional staff required to implement the next stage of Council's Asset Management Development Program (AMDP). This specific information is provided below the AMDP project.

Council has identified a program of work over 2014-2017 that will enable more efficient, robust and transparent processes to enable better asset-related decision making. Implementation is dependent on additional staff resources.

<sup>8</sup> NSW Office of Water, Gosford City Council TBL Water Supply Performance Report and Sewerage Performance Report - 2010-11, 2012.

Stage two of the AMDP comprises the following major activities, which will continue to improve Council's asset management maturity from the core level to a more advanced level of asset management maturity:

- Condition assessment programs for each asset class
- Risk/criticality assessment program for each asset class
- Capital project delivery management - governance, gateway reviews and capital works approval process
- Framework for a consistent business case, project tracking and project reporting

The Systems Implementation Officer (new full time position) is required to coordinate and implement these initiatives. The Asset Administration Officer (new full time position) is required ensure that all asset data is recorded in Council's asset management system software, Hansen, building on these advanced decision making frameworks, particularly relating to operating/capital cost trade-offs.

Without additional resources, stage two of the AMDP cannot be implemented. In line with OGW's comments regarding the capital program there is a clear need to continue to improve Council's asset management maturity in order to optimise asset management outcomes.

Council has used its existing experience of resource requirements for asset data capture to forecast resource needs and derive the costs for stage two of the AMDP. The staff costs for the positions have been forecast in accordance with the salary system of the Local Government Award.

The timing of these two positions is linked to the AMDP schedule, including the progressive roll-out of condition assessment programs, risk assessment programs, and enhancement of proactive maintenance programs. Timing is also being driven by the high volume of asset renewal and creation underway in the current price period and proposed for the next price period.

Additionally, asset handover has been highlighted in the current AMDP as a priority improvement initiative. These two positions will drive a systems and information based approach to better quality asset renewal decision making into the future.

The step change related to these positions should be accepted by IPART and applied to both water and sewerage.

**Table 8 Additional step changes to be included in allowed operating costs (\$12/13 '000s)**

	2013/14	2014/15	2015/16	2016/17
Hawkesbury Bridge Painting - sewerage			600	616
AMDP staff resources -water	90	90	90	90
AMDP staff resources -sewerage	90	90	90	90

### **Real escalators**

IPART has adopted OGW's recommended escalators for electricity prices. Whilst Council accepts OGW's forecasts for later years of the determination period, Council has market based contract rates for 2012/13 and 2013/14. These are prudent and efficient market based/regulated prices which Council will actually incur and contracts which Council prudently entered into. The use of generalised estimates, when specific prices are known is inappropriate. OGW is unreasonably dismissive of the existence of contract prices and the increases from current prices. OGW suggest that further detail is required to validate the increases associated with Council's contract prices, but did not seek any further detail from Council. Council would be happy to provide a copy of the electricity contract to IPART as evidence of the prices currently being paid and the contracted prices for the next two years.

IPART has not accepted OGW's recommendation to include the carbon tax cost escalator as proposed in Council's submission. The draft report provides no explanation for this draft decision. The embedded costs of carbon in the supply chain were formally recognised by IPART in its decision to allow Sydney Water to recover these costs. Council's submission was based on the same principles as Sydney Water's proposal. Council request that IPART include the 0.4% escalator for the embedded cost of carbon in Council's operating costs.

**Table 9 Real escalators and associated costs to be included in operating costs (\$12/13 '000s)**

	2012/13	2013/14	2014/15	2015/16	2016/17
<b>Electricity</b>	<b>24.2%</b>	<b>4.5%</b>	<b>2.8%</b>	<b>2.5%</b>	<b>1.7%</b>
Resulting energy costs - water	-	1,759	1,819	1,876	1,919
Resulting energy costs – sewerage	-	2,591	2,680	2,763	2,827
<b>Embedded cost of carbon</b>	<b>-</b>	<b>0.4%</b>	<b>0.4%</b>	<b>0.4%</b>	<b>0.4%</b>
Resulting carbon costs - corporate	-	48	48	48	48
Resulting carbon costs - water	-	68	67	71	71
Resulting carbon costs - sewerage	-	76	77	77	78
Resulting carbon costs - stormwater	-	22	22	22	22

### **3.3.2 Modelling errors and administrative changes**

Council believes that IPART has made a number of calculation errors in the determination of Council's future operational costs. Council is also seeking wording changes to the report to improve its clarity and accuracy for stakeholders. These are presented below.

#### **Table 5.1**

The footnote under Table 5.1 states that "All figures have been adjusted to exclude bulk water purchases". Clarity is sought as to why bulk water costs have been excluded from the total value of operating costs proposed and recommended in Table 5.1. Council understands that some of the bulk water costs have been recalculated due to a change in the price of transfers between the Councils and Hunter Water. However, the resulting bulk water costs are included in IPART's revenue calculations as prudent and efficient operating costs. The

total operating costs values presented in Table 5.1 should agree with the values Council proposed in our submission and the values being used in the revenue needs calculation.

**Table 5.4**

To improve the clarity of Table 5.4 Council suggests that footnote “a” should be amended to ‘2012/13 actual is a budgeted figure’ in line with the footnote on Table 5.2.

*Corporate overhead costs*

OGW recommends a reduction in the 2013/14 corporate overhead costs of \$1.0M (from \$12.6M to \$11.6M). However, this value has been removed from the 2011/12 base year cost. The direct use of a 2013/14 modelled value to adjust the 2011/12 base year is inappropriate. The corporate overhead charges in 2011/12 were lower than in 2013/14 (for reasons such as inflation). Council has applied the same modifications to the actual 2011/12 corporate costs as OGW made to the 2013/14 model e.g. removing excluded accounts and modifying expenditure drivers. The resulting difference is \$0.9M and this value should be used to amend the 11/12 baseline costs.

*Central Coast Water Corporation (CCWC)*

IPART’s draft decision is to disallow recovery of any CCWC costs during the next determination period. Irrespective of whether IPART accepts the further arguments proposed by Council in relation to recovery of CCWC costs (presented in section 3.3.1), mathematical corrections need to be made to the removal of CCWC costs from IPART’s financial model.

The draft report states that IPART has excluded CCWC costs for 2011/12 when making adjustments to 2011/12 as the base year (p.67). However, a detailed analysis of the calculation within IPART’s financial model reveals that the 2011/12 costs have been reduced by a far larger amount than the CCWC costs incurred in that year. To determine the value of operating costs if no CCWC costs had been incurred in 2011/12, the value actually spent on CCWC in 2011/12 should be removed. As per Council’s AIR, a total of \$568,000 was spent on the CCWC in 2011/12. This is the value that should be removed from the 2011/12 actual costs to represent the base year expenditure without CCWC. The IPART model incorrectly removes \$1,150,000 in 2011/12, carries the resulting value forward to 2012/13 and then again removes \$1,150,000 in 2012/13 plus \$300,000 of CCWC Board operating costs (even though these values are not within the base year costs). This calculation removes other operating costs that have been assessed as prudent and efficient base year costs.

Council requests IPART make the corrections to the 2011/12 base year corporate costs, presented in Table 10, in their financial model. Following these adjustments, there is no need for IPART to remove any other costs associated with the CCWC or corporate overheads from future years.

Council would like to work with IPART to address these errors. Council requests the opportunity to review the model and any other adjustments prior to release of the final Determination and Report.



Council also seeks further information from IPART how payments to and from Wyong for the JWS have been treated in the financial model, particularly how costs reductions have been commensurately reflected in recovery reductions.

**Table 10 Calculation corrections to base year corporate costs adjustments (real \$11/12 '000s)**

	<b>2011/12</b>
Actual base year Corporate costs (source Council AIR)	13,073
Incorrectly adjusted base year costs (source IPART model)	10,912
Reverse ('add back') current incorrect 'CCWC' exclusion (source IPART model)	+1,150
Exclude actual CCWC costs from base year (source AIR)	-568
Reverse ('add back') current overhead reduction in IPART model	+1,011
Reduce corporate overheads in base year (in line with OGW recommendation)	-933
Resulting base year corporate costs	11,572
Resulting base year corporate costs (inflated to \$12/13)	11,896

Table 11 presents the resulting operating costs following Council's proposed adjustments and correction of identified errors.

**Table 11 Resulting operating costs (\$12/13 '000s)**

	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
Corporate	11,943	11,943	11,943	11,943
Water	17,383	17,144	18,166	17,962
Sewerage	19,311	19,502	20,292	20,533
Stormwater	5,579	5,588	5,597	5,607

Note: Excludes any changes to JWS recoveries

### **3.4 Capital investment**

Council requests that IPART include an explanation how the terms 'prudent' and 'efficient' have been applied by OGW and IPART for the purpose of the report. Specifically, IPART should make clear that an assessment of prudence includes consideration of timing and that a project assessed as not currently prudent may well be prudent in the future.

#### **3.4.1 Inclusion of past capital expenditure into RAB**

*Draft decision 14, p71*

Council supports the incorporation of past capital expenditure into the RAB.

Council requests removal of the statement "Gosford Council incorrectly included recycled water expenditure in its calculations. We have removed that expenditure from our calculations and excluded it from the RAB". Enquiries to IPART were not able to discern

where or how Council had incorrectly included recycled water and IPART staff advised that the inclusion of the comment was most likely a mistake.

Council also suggests IPART correct the addition errors in the total column of Table 6.6 so that the totals are the sums of the values elsewhere in the table, and the values in Table 6.1.

### **3.4.2 Inclusion of forecast capital expenditure into RAB**

*Draft decision 16, p71*

#### *Table 6.10*

Council requests IPART amend the description of the first project listed in Table 6.10 to “Mangrove” rather than “Mardi”, as the project relates to Mangrove Creek Dam. Council suggests that a note is placed on this project to highlight that it is a JWS project and that the cost presented here is 50% of the total project cost. Alternatively IPART could include the whole project cost and note that the costs are to be shared equally with Wyong Council. Council also requests that the “assessment” description for this project be changed to “timing not prudent”.

Council requests that IPART change the project description of the third project in Table 6.10 to “Non major SPS renewal program”. This is the description used in Council’s submission. Council also requests that the “assessment” description for this project be changed to “timing not prudent for \$7.4M”. The use of the words “not prudent” implies that the whole project was not prudent, however the majority of the SPS upgrade program was found to be prudent by IPART’s consultants.

Council requests that the first bullet point below table 6.10 be removed. The ‘Mardi Dam Inlet project’ is a Wyong managed JWS project, and although Gosford has an interest in this project, it should not be duplicated in Gosford’s section of the report.

#### **3.4.2.1 Forecast capital projects**

Council provides the following information in order for IPART to reconsider its position regarding the prudence of the projects below.

##### ***Mangrove Creek Dam PMF – Gosford managed JWS project***

The proposal to defer expenditure for modifications to the spillway at Mangrove Creek Dam to address probable maximum flood and dam safety issues limits the ability to harvest and store water for a future drought.

Though system modelling indicates there is capacity to defer rectification works for some period this needs to be considered in the context of climate variability and the inability to predict the timing, intensity and extent of the next drought.

Entering a drought sequence with higher storage levels will reduce the impact on the community and minimise the potential need to undertake costly contingency works as has occurred in the recent drought.

The current Hunter Central Coast agreement provides for bi-directional water transfers in times of water shortage. The ability to fill Mangrove Creek Dam to 100% capacity would enhance the potential to provide water to the Hunter under the current agreement in the event of drought in that region. It is noted that the potential need for transfers to the Hunter has been increased by the decision not to proceed with Tillegra dam.

Deferring rectification of the Mangrove Creek Dam spillway issue until after the next price path is a missed opportunity to provide greater levels of security for the Central Coast and potentially Hunter in light of unpredictable climate variability.

The recent Central Coast drought was unprecedented which foreshadows that climatic conditions can be more severe than historical records used in system analysis would indicate.

With the very low storage levels attained during the last drought, the Central Coast community is highly sensitive to water security issues. Community and economic confidence on the Central Coast could be lessened if recovery of Mangrove Creek Dam storage levels were constrained by technical deficiencies and that resolution of those deficiencies was not actively being pursued.

Council argues that provision for the investigation and design for rectification works in the price path is a sound and prudent risk management measure and would be expected by the Central Coast community.

As a minimum, expenditure in the next pricing path be allowed for the preparation and completion of preconstruction activities for the resolution of the spillway constraints to enable a rapid implementation of necessary works early in the following price path.

The required minimum expenditure values (to be shared equally by the two Councils) are presented in Table 12.

**Table 12 Mangrove Creek Dam PMF preconstruction (\$12/13 '000)**

	2013/14	2014/15	2015/16	2016/17
Mangrove Creek Dam PMF preconstruction	250	250	350	100

***DAF Detailed design – Wyong managed JWS project***

On the recommendation of OGW, IPART's draft decision is to disallow all expenditure on this project. Council believes that further deferment of this project presents an unacceptable risk to water quality.

OGW's recommendation was based solely on the assumption that interim strategies (identified in a report by GHD) would be sufficient to manage the water quality risks that the project would otherwise address. However, the interim strategies, which have been, and are currently being, utilised, are not adequate as long term solutions.

The enhanced treatment project is required to maintain treated water quality whilst harvesting a greater proportion of higher end streamflows (to meet environmental flow and yield objectives). Risks initially identified with harvesting higher end streamflows included increased turbidity, phosphorus/algae issues and 'short circuiting' of Mardi Dam. Interim measures, recommend by GHD, were implemented to address these risks, whilst operational data and experience was obtained to enable development of the most appropriate longer term solutions. The interim measures essentially comprise operating Mardi Water Treatment Plant at a lower flow rate and sourcing treated water from an alternative source (Somersby Water Treatment Plant).

Operational data and experience has demonstrated that the current reliance on the interim measures creates significant water quality management issues and is (in contrast with OGW's assertion) not suitable "as a long term solution"<sup>9</sup>. The interim measures are not sufficient to allow further deferment of the project.

OGW's recommendation to IPART relies upon the "total system redundancy now provided as a result of interconnection with GCC"<sup>10</sup>. OGW fails to recognise that this redundancy may not be available when most needed. Recent experience has demonstrated that adverse weather (e.g. heavy rainfall and high streamflows) impact treatment capabilities at both major Central Coast supply sources (Mardi Treatment Plant and Somersby Treatment Plant) concurrently, which effectively removes the redundancy.

Additionally, organic carbon levels (higher than anticipated when GHD proposed the interim solutions) now constrain Council's ability to operate the plant at a lower production rate (limited by concentration). As such, this aspect of the interim solution is significantly hindered.

OGW also inappropriately describe a production volume of 120ML at Mardi Treatment Plant as GHD's "threshold level for triggering an upgrade"<sup>11</sup>. The GHD report does not set this value as a trigger level, it is merely provided as one example of why the interim operational measures may not be sufficient. Recent experience demonstrates that there are other reasons why the interim measures may be insufficient, and OGW's paraphrasing/ interpretation of GHD's report is misleading.

There is a clear and formally identified increased risk associated with harvesting higher end streamflows. The interim solutions that may have allowed deferment of treatment solutions to address this risk have proven not to be sufficiently effective to enable long term deferment of the proposed treatment process upgrade.

Council requests IPART to recognise the flaws in OGW's recommendation and allow the proposed funds (\$1.4M in \$2012/13 over period) to progress investigation and preconstruction associated with an effective long term solution to the above water quality risks. If this work cannot be funded in the current price determination period Councils via

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<sup>9</sup> OGW, Review of Capital and Operating Expenditure for Gosford City Council, - Independent Pricing and Regulatory Tribunal (IPART), 26th November 2012, p. 93

<sup>10</sup> OGW, Review of Capital and Operating Expenditure for Gosford City Council, - Independent Pricing and Regulatory Tribunal (IPART), 26th November 2012, p. 93

<sup>11</sup> OGW, Review of Capital and Operating Expenditure for Gosford City Council, - Independent Pricing and Regulatory Tribunal (IPART), 26th November 2012, p. 93

CCWC will find it difficult to implement the solution in the subsequent price determination period commencing 1 July 2017.

**Table 13 DAF Detailed Design (\$12/13 '000)**

	2013/14	2014/15	2015/16	2016/17
DAF Detailed Design	-	-	700	700

Values represent total cost; Gosford's share is 50%

### ***Mardi to Warnervale – Wyong managed project***

The Hunter/Central Coast Pipeline Agreement requires the Mardi to Warnervale trunk main be in place to enable 30 ML/d (on average) of potable water to be transferred to the Hunter water supply system.

The current transfer capacity from the Central Coast to the Hunter is approximately 13 ML/d (on average) and is limited by the missing Mardi to Warnervale trunk main.

Given that Hunter Water will no longer build Tillegra Dam and that the Lower Hunter Water Plan will consider longer term reliability and security issues, there is a need to construct the Mardi to Warnervale trunk main in the next pricing path as a short to medium term response to the possibility of drought in the Hunter.

Under drought conditions and given the potential for rapid depletion of its storages, Hunter Water may need to source water from the Central Coast in excess of the current transfer capacity i.e. 13 ML/d.

As a party to the Hunter/Central Coast Pipeline Agreement, Gosford Council requests IPART allow Wyong Council to recover expenditure associated with Mardi to Warnervale project.

### ***Sewage Pump Station Renewal Program***

Council included in its pricing submission a \$24.7M (\$12/13) sewage pump station renewal program. OGW recommended that IPART reduce the amount to approximately \$17.3M.

OGW's arguments presented for this reduction can be paraphrased as follows:

- “The major issue with the assessments carried out to develop the priority list is that it is a ranking process, and it is substantially driven by age.”<sup>12</sup>

Council response: OGW was advised that whilst the *initial* identification of pump stations potentially requiring refurbishment was based upon an age assessment, the capital program proposed resulted from physical inspection of the pump stations and analysis of their individual performance and hence OGW conclusion as to the basis of Council's proposed capital needs for the refurbishment/renewal of its sewerage pump stations is erroneous.

<sup>12</sup> Review of Capital and Operating Expenditure for Gosford City Council Independent Pricing and Review Tribunal (IPART), p114

- OGW made a comparison between the percentage of pump stations proposed for renewal/refurbishment to that undertaken by both Sydney Water and Wyong Shire to establish what OGW has concluded is a prudent level of renewal/refurbishment.

Council response: Using another business' percentage of renewal/refurbishment is overly simplistic as it takes no account of the age of the components in Council's pump stations compared to the businesses against which Council is being benchmarked nor of the risks posed by Council's pump stations compared to the businesses against which Council is being benchmarked.

Council will revise the SPS renewal program in line with the arbitrarily reduced amount. This will result in increased public health and environmental risks due to potential overflows Council is concerned at the risk to which it is being exposed by not being funded to undertake what Council considers to be an appropriate level of renewals/refurbishment of its sewerage pump stations. Whilst IPART may consider that the implications of this risk are covered in the WACC, any additional cost resulting from any capital expense need greater than that allowed for will adversely impact the already adverse credit metrics resulting from the draft pricing determination i.e. there are no "surplus funds" to cover such an outcome.

Council notes the Environment Protection Authority's support for Council's major sewerage projects, particularly sewage pump station renewals as proposed by Council.

### **3.4.2.2 Efficiency target of 5%**

The proposed efficiency target of 5% cannot be realistically achieved by Council, particularly in the early years of the price period.

The capital program cost forecasts were prepared using costs estimates from the NSW reference rates manual, recent data from asset revaluation, current contract prices and recent market experience. As such, the costs comprise a reasonable estimation of the current market conditions. As the majority of Council's capital program is delivered through competitive tendering on the open market and only about 10% of total capital costs are Council labour, Council has limited ability to improve the efficiency of the program.

Some efficiencies may be possible through further procurement improvements, however, any improvements will not affect the outcomes of projects being delivered in the first few years of the determination period, as the procurement of many projects are already underway.

Council proposes that the applied efficiency savings for the capital program be as presented in Table 14.

**Table 14 Proposed capital efficiency target (%)**

	2013/14	2014/15	2015/16	2016/17
Capital efficiency target	0.0	1.0	2.0	3.5

### **3.4.3 Calculating the return on assets**

*Draft decision 18, p89*

Council believes that the WACC is lower than appropriate to maintain financial sustainability, however, we note that the WACC will be revised based on market conditions prior to the final determination.

Council requests IPART to consider using long term parameters to reduce the impacts of market volatility and to consider a higher WACC to provide a commercial rate of return to adequately compensate for infrastructure investment and risks associated with the business.

### **3.4.4 Calculating regulatory depreciation**

*Draft decision 19, p91*

Council is disappointed at IPART's draft decision not to update the weighted average lives of assets. Council is particularly disappointed by the claim "neither Council made a definitive statement about its intention to change the methodology prior to their submissions" (p.94). Gosford Council indicated to IPART almost a year before the submission was made its intention to change the current methodology and requested IPART to advise what information was required to make this change and the format the information should be provided. Despite repeated attempts and organisational escalation, this information was not forthcoming until four days before Council's submission was due.

The draft report states that "Asset lives should be realistic". The currently adopted asset lives of 100 years for all new assets regardless of type are unrealistic.

The decision not to change asset lives, further affects the business' financial sustainability as Council continues to recover less in regulatory depreciation than the assets replacement needs.

## **3.5 Forecast water sales**

### **3.5.1 Forecast metered water sales**

*Draft decision 20, p96*

Council supports IPART's adoption of the forecast metered water sales in Council's submission.

### **3.5.2 Water consumption for setting developer charges**

*Draft decision 21, p96*

Council supports the setting of water consumption for developer service charges at the values proposed in Council's submission.

### **3.6 Outcomes from review of price structures**

Council understands and appreciates the reasons for IPART's review of price structures and also supports the theoretical basis for the changes. However, Council is disappointed that IPART did not include in the draft report any of Council's feedback regarding the practical implementation challenges for proposed multi-premises charges.

Whilst Council accepts that our comments may not change the outcome, their absence, and lack of any response to them, implies that they were not even considered by IPART. The comments included legitimate operational concerns which impact Council's ability to practically implement the new price structures.

Council continues to hold concerns about its ability to accurately levy some charges based on the new price structures (due to software and data limitations).

One selected draft decision where further change is required are addressed here.

#### **3.6.1 Water prices for unmetered properties**

*Draft decision 24, p116*

The adoption of a deemed usage of 180 kL per annum for unmetered properties is inappropriate.

As stated in Council's submission, there are no known permanently unmetered properties that would warrant the proposed charge. There are however, properties that are temporarily unmetered that will be unfairly impacted by the charge. The definition of 'unmetered property', in the determination, does not make clear whether temporarily unmetered properties would be subject to this charge, however, based on the draft report, Council assumes IPART's intention is that they would be.

IPART suggests that the unmetered charge provides an "incentive for small water users to have a meter installed". There is no need to have an incentive. Council's customers are required to have a meter unless otherwise authorised by Council. Authorisation for meter removal is generally associated with activities such as major road construction works encroaching on customers' properties and the meter's location. The charge, which may increase a customer's bill significantly, unfairly impacts customers who have had their meters removed without choice.

IPART suggests that its draft decision is based on "simplicity, ease of administration and consistency"; however there appears to be no consideration of the actual customer impact.

Council requests IPART to give further consideration to the proposal in our submission where a temporarily unmetered property is charged for water usage based on their property's historical consumption.

### **3.7 Draft pricing decisions**

Council believes that the prices need to be adjusted for the range of changes to operating and capital cost as outlined in sections 3.3 and 3.4 and the financial sustainability of the business as outlined in section 2.



Accordingly, only selected draft decisions where further changes are also required are addressed here.

### **3.7.1 Climate Change Fund contributions**

*Draft decision 35, p116*

The Council's did not propose that contributions to the fund be passed on "in the following year". The Council's proposed that the costs of any contribution to the Climate Change Fund be recovered in the same year they are incurred. Council does not have the cashflow capacity to carry additional expenses due to the Fund without cost recovery in the same year. Council requests IPART to clarify this in the draft report and make appropriate changes to the draft determination.

### **3.7.2 Trade waste services**

*Draft decision 43, p128*

*Table F.3*

Council requests a number of minor administrative changes to this table to improve clarity.

Council requests IPART to consider:

- amending the title of Table F.3 as not all of the charges relate to "mass". A suggested title for IPART's consideration is "Exceedence Charges".
- removing ">10, or pH<7" from the description of listed pollutant pH. pH limits are set within the Liquid Trade Waste policy and as such there is no need to include the limits in Table F.3.
- add to the footnote that "Charges will be applied per kilogram or kilolitre as appropriate to the particular pollutant"
- expand the existing footnote to clarify why "Most of the charges will not apply to any customer over the next determination" i.e. ..."as most trade waste discharges fall within permitted limits".
- Remove the asterisk from ammonia, grease, pH, silver and suspended solids as there is not associated footnote.
- Make all relevant change to the equivalent table in the determination (p. 34).

### **3.7.3 Miscellaneous charges**

*Draft decision 48, p135*

Council supports IPART's adoption of Council's proposed fees for ancillary and miscellaneous services.

Council requests the addition of another miscellaneous charge in the final determination.

Changes to the Public Health Regulation in September 2012 introduced new monitoring requirements regarding water carters drawing from the water supply system. This triggered implementation of a new water carter management system that had not been adopted at the time of Council's original pricing submission to IPART.

#### ***Water carter fill charges***

Gosford City and Wyong Shire Councils issue permits to bulk water carters to draw water from the water supply system through the use of metered standpipes at designated locations

throughout both LGAs. A review of practices for managing water carters has identified that the current management system requires improvements to hydrant access and water quality risk management and better monitor the volume of water taken from the system.

To address this, the Councils are introducing a new management system involving the installation of monitoring equipment (at the Councils' cost) on bulk water carters and a charge based on a per fill basis for those water carters fitted with the equipment. The proposed charge is detailed in Table 15.

**Table 15 Additional Charge for Ancillary and Miscellaneous Customer Services**

No.	Ancillary and Miscellaneous Customer Services	Charge (\$)
		11.00
		+
	<b>Water Carter fill charge</b>	Water usage charge specified in
[Insert No.]	Per fill charge incurred by bulk water carters accessing water supply with monitoring equipment installed.	Table 4 of the determination, for the applicable
	Bulk water carters incurring this fee will not incur the Standpipe Hire Charge.	Period in that table x *nominal tank size of water carter being filled.

\*The nominal tank capacity is the volume of water that a tank is rated to contain. For the purpose of calculating the fill charge it must be expressed in kilolitres.

Using the water usage charge in the draft determination, a water carrier with tank capacity of 5 kilolitres would be charged \$21.60 per fill (\$11 + (\$2.12 x 5kL)).

Existing miscellaneous charges related to standpipe hire, bond and water usage are required to remain in place so they can be applied to other to drawers from the system that cannot be managed though the mobile monitoring equipment solution.

Council is conscious of the impact that the proposed prices may have on customers (the water carters and their customers). To mitigate these impacts, the Councils' have proposed prices that do not recover the cost of installing the technology and associated administration costs (costs to be borne by the Councils').

The proposed price will increase the cost of each fill by \$11.00 in real terms. Bulk water carters incurring this fee will not incur the Standpipe Hire Charge (which is based on the 50mm water service charge). The overall bills for Bulk water carters with only a small number of fills throughout the year will decrease whereas those with greater consumption will see an overall increase in bills. This outcome is in line with user-pays water pricing principles.

### 3.8 General

The report refers extensively to Gosford-Wyong Councils' Water Authority (GWCWA). This entity does not exist anymore. Although the Councils continue to jointly operate the Central Coast water supply system (the joint water supply (JWS)), the CCWC now has responsibility

for the functions previously performed by the GWCWA (as was stated in Council's submission). The functions were transferred to the CCWC on 1 July 2012, at which time the GWCWA was formally dissolved. Any references to the GWCWA in IPART's report should be purely historical.

The map included on page 28 is out dated (e.g. does not include new infrastructure such as the Mardi-Mangrove Link) and appears to have been carried forward from IPART's 2009 report. Additionally, the listed source link is no longer available. Council included a figure presenting the key Central Coast water and sewerage system components in its submission and would be happy to provide the image file for IPART's use.

## **4 Prices Draft Determination**

This section outlines Council's response to IPART's document *Gosford City Council and Wyong Shire Council: Prices for water, sewerage and stormwater drainage services from 1 July 2013 to 30 June 2017, Water - Draft Determination, February 2013, (No. 2, 2013)*.

Council request that IPART make appropriate modifications to the determination based on Council's comments on the draft report in section 0.

Council request modifications be made to Schedule 1, Part 8 (a) (c) (1) to enable Council to continue the current practice of levying water usage charges on individual strata unit owners (in proportion to their unit entitlement). Due to the strata ownership structure, each strata unit has a legal relationship with Council and an individual assessment number for billing purposes. Council agrees with levying a single bill to the owner for multi-premises as Council only has a legal relationship with the owner and one assessment number for the property.

Council requests that a charge for properties with 32mm meters be included in all applicable tables. The manual price calculation of the 32mm meter charge adds unnecessary administrative complexity which could be easily addressed by direct inclusion in the water and sewerage service charge tables.

Council requests IPART give further consideration to the comments regarding unmetered properties under section 3.6.1 of this submission and accordingly redraft Schedule 1 Part 5.

Council notes that IPART has separately sought specific advice from Council regarding the legal interpretation of definitions. Council will formally respond to this request separately. Council provides the following general comment regarding definitions in the meantime.

*Individual meter:* The definition should make clear that an individual meter is a meter provided and owned by Council. It is not a sub-meter installed/owned by the landholder.

*Unmetered property:* The definition should make clear whether this it includes a property that may be temporarily unmetered (e.g. metered removed due to road construction works).

## **5 Developer Charges Draft Report**

This section outlines Council's response to IPART's document *Gosford City Council and Wyong Shire Council: Developer Charges, Water - Draft Report, February 2013*.

Council supports IPART's draft decisions for developer charges calculation parameters and the commencement date for the parameters.

Council will 'adopt' new developer charges a meeting prior to the actual commencement of those developer charges (e.g. adopted at a meeting in late May for commencement on 1 July). To minimise confusion, Council requests a change to the terminology in Table 4.1. The text "...prevailing on the day that the Council adopts its developer charges" should be amended to "...prevailing on the day the developer charges start to apply". This would also remove the need for footnote 'a'.

## **6 Developer Charges Draft Determination**

This section outlines Council's response to IPART's document *Gosford City Council and Wyong Shire Council: Developer Charges, Water - Draft Determination, February 2013 (No. 1, 2013)*.

Council request that IPART make appropriate modifications to the determination based on Council's comments on the draft report in section 5.

Council requests IPART to modify Schedule1, Point 2 (c) to remove "on July 1" this multiplication will need to occur prior to 1 July, although the resulting charges will apply from 1 July.

There is a possibility that the Periodic Charges Review prevailing on the day of adoption (late May) will be different to that prevailing on the date of commencement (1 July).As such, Council requests IPART modify the definition of Pre-tax WACC to clarify the WACC to be selected in this situation. Specifically, Council requests the text be modified from "prevailing on the day that the Council adopts revised developer charges" to "...prevailing on the day the revised developer charges will start to apply".