

**REVIEW OF PRICES FOR WATER, SEWERAGE AND  
STORMWATER SERVICES TO GOSFORD CITY  
COUNCIL AND WYONG SHIRE COUNCIL**

**SUBMISSION BY TOTAL ENVIRONMENT CENTRE TO  
THE INDEPENDENT PRICING AND  
REGULATORY TRIBUNAL**

**October 2012**

## **INTRODUCTION**

Total Environment Centre (TEC) welcomes the opportunity to contribute to the Independent Pricing and Regulatory Tribunal (IPART) review of water, sewerage and stormwater prices for Gosford City Council and Wyong Shire Council. Detailed comments on matters and other issues raised in the Tribunal's issues paper (IPART, 2012) follow.

## **PRICE DETERMINATION**

### **Length of the determination period**

TEC believes that a four year determination period provides an appropriate balance between certainty and limiting delays in introducing necessary pricing reforms. We note that this will ensure that the next price determination coincides with the transfer of water Supply Authority to the Central Coast Water Corporation (Gosford City Council, 2012; Wyong Shire Council, 2012).

In view of the existence of the connection between HWC and Gosford/Wyong Councils' water supply systems and the trading of water between them, TEC sees merit in maintaining the current alignment in the price paths for both utilities. We caution, however, that conducting reviews concurrently may place severe burdens on the resources of individuals and community organisations and limit their capacity to contribute to all reviews. We urge the Tribunal to ensure that, if reviews are conducted concurrently or within a short period of one another, that ample time be provided for groups with limited resources to review all relevant material and contribute submissions to the review process. TEC has experienced difficulty in meeting the deadlines of both the Gosford/Wyong and Hunter Water price reviews currently underway.

### **Revenue requirements & capital expenditure**

TEC welcomes proposed upgrades to wastewater treatment facilities (Gosford City Council, 2012; Wyong Shire Council, 2012). We are disappointed, however, to note that Gosford council does not propose to develop any further recycling schemes over the course of the next price determination (Gosford City Council, 2012).

We are also disappointed to note a heavy focus on hard engineering approaches to managing stormwater (Gosford City Council, 2012; Wyong Shire Council, 2012). In determining the revenue requirements of the Councils and appropriate charges for stormwater we urge the Tribunal not to provide Councils with funding that will simply be used to fund environmentally damaging hard engineering approaches such as channelisation and sealing of natural watercourses. Conversely, projects which seek to adopt a more enlightened approach and which will actively reduce urban run off or improve stormwater quality should be regarded as worthy of immediate support and provision made to ensure that charges provide an adequate level of funding.

## **Forecasting metered water sales and customer numbers**

TEC strongly endorses the introduction of permanent Water Wise guidelines. We also note that Wyong Council has acknowledged that the long period of water restrictions experienced on the Central Coast has resulted in customers adopting low external water use behaviour (Wyong Shire Council, 2012). We support the recognition of these facts in calculating forecast water sales.

TEC also recommends relaxing security of supply criteria to ensure that higher level restrictions are introduced earlier (i.e. at higher storage levels). Imposing restrictions to deal with drought scarcity is a more sustainable and economically responsible response than attempting to create a ‘drought proof’ supply that will ensure that higher level restrictions are never or rarely introduced. We note the comment in the draft WaterPlan 2050 strategy that “in most instances, demand management actions have proven to be more cost effective than increasing supply” (Gosford-Wyong Councils’ Water Authority, 2006). We concur with this view and strongly recommend that restrictions be viewed as a logical and responsible response to drought scarcity and a means of preventing unsustainable and expensive supply augmentation.

## **Price structures and price levels**

TEC supports the use of a two part tariff approach for Gosford and Wyong water and wastewater charges. We are concerned, however, by the reliance on a high level of fixed charges. We note that the current prices proposed by the Councils would maintain a very high fixed charge component (Gosford City Council, 2012; Wyong Shire Council, 2012). TEC believes that this continued reliance on a high level of fixed charges reduces the resource conservation signal to customers and diminishes customers’ ability to control the size of their bills. This provides stronger incentives to customers to reduce consumption and invest in measures such as rainwater tanks and more efficient appliances.

In previous submissions to the Tribunal TEC has strongly advocated the introduction of inclining block pricing and a reduction in fixed charges for metropolitan water agencies to provide a clear signal to customers of the need to reduce water use to sustainable levels. In particular we welcome the potential of second tier prices to target discretionary water use and hence provide a strong incentive for high volume users to moderate non-essential water use.

TEC strongly believes that the inclining block tariff model and a reduction in fixed charges should be applied to prices for Gosford and Wyong Councils. In their submission to the 2004 price review Wyong Council acknowledged that there is merit in investigating this (Wyong Shire Council, 2004) and supported the proposals by both Gosford and Wyong Councils to increase the proportion of water revenue attributable to usage charges.

Gosford City Council's submission to the 2005 review stated that in September 2005 Council resolved to support an inclining block tariff structure but that logistical issues needed to be addressed to allow such a structure to be introduced (Gosford City Council, 2005).

In view of this, we are surprised that there has been no progress on introducing inclining block tariffs in their submissions to the present review. TEC remains convinced that both Councils should move to an inclining block tariff structure with reduction in fixed charges as important demand management measures. We urge the Tribunal to adopt a bold approach and institute this important reform.

TEC recognises that increasing reliance on volumetric charges potentially exposes the Councils to revenue volatility if water sales do not match forecasts. In view of this, and also to protect customers from over-recovery of costs, we would support the introduction of a revenue adjustment mechanism similar to that introduced for Sydney Water in its 2012 price determination (IPART, 2012b; Gosford City Council, 2012; Wyong Shire Council, 2012).

### **Wastewater charges**

In their submissions to the Tribunal both Gosford and Wyong Councils propose continuation of fixed sewerage service charges for residential properties and a combination of access charge and usage charges to non-residential customers (Gosford City Council, 2012; Wyong Shire Council, 2012).

TEC sees no reason why sewerage usage charges should not be applied to both residential and non-residential customers. Large fixed charges for sewerage services significantly reduce the control that customers can exercise over the size of their bills. The result is reduced incentive to adopt more efficient appliances and water use strategies, thus eroding the resource conservation signal sent by water usage charges.

TEC also believes that wastewater charges should not only reflect the economic costs of transporting and treating effluent, but also the environmental costs of discharging effluent to receiving waters. To reflect the greater environmental costs imposed by those who discharge higher volumes of effluent and in accordance with the principle of polluter pays, usage charges should be applied to sewerage services.

Reducing pressure for supply augmentation is not the only goal or benefit of demand management. Reducing demand for water will also reduce the volume of effluent discharged to the sewerage system and thus lessen environmental impacts. In this context it is appropriate that volume pricing for wastewater form part of overall demand management strategies.

TEC recognises that this approach has limitations in that it is difficult to meter domestic wastewater discharge. In the absence of any means of metering discharge it is necessary for usage charges to be linked to water consumption.

It is clearly not appropriate for discharge factors to be set at 100% given that most customers do not discharge all their water into the sewer. The discharge factor should therefore be set at a reduced level such as the 50% factor used by Hunter Water for residential customers. We note Hunter Water's comment in its submission to the 2004 Hunter Water price review that for most properties this represents a conservative assessment of the volume discharged to the sewer (HWC, 2004).

While clearly not a perfect system, we strongly believe that it represents a superior approach to present pricing arrangements. It is true that such a pricing structure does not take into account the possibility that the amount discharged to the sewer may vary from property to property. It is clearly fairer, however, than a simple fixed service charge which reduces the capacity for customers to control their bills and effectively subsidises high users at the expense of more water efficient customers.

In order to make such a pricing structure more accurately reflect the contribution of flats and units the discharge factor for such properties should be set at a higher level

TEC believes that the Tribunal should also direct the Councils to investigate mechanisms that would more accurately reflect the contribution of each customer to the sewerage system such as wastewater metering, or charging according to property size and land use or refining discharge factors. Such a system should also include rebates for customers who can demonstrate that they have reduced their contribution to the sewerage system (and thus the environmental costs of effluent disposal) through the installation of water efficient devices and improvements to private service lines.

### **Stormwater charges**

TEC notes that both Councils are proposing the use of fixed charges to recover costs of providing stormwater services (Gosford City Council, 2012; Wyong Shire Council, 2012). We believe that this approach is seriously flawed and are dismayed neither council appears to have made any progress on developing area based charges since the last determination.

TEC believes that stormwater charges should, as far as possible, be catchment based and linked to environmental impacts. In this respect charges should be reflective of the amount of stormwater a property contributes to the drainage system (i.e. linked to the total area of impervious surfaces on each property as this determines stormwater runoff to a significant extent).

Pricing should also provide rebates for customers who install on site stormwater management facilities such as retention basins and stormwater recycling (i.e. rainwater tanks). This would act as a powerful incentive for developers and property owners to embrace water sensitive urban design features.

To prevent hardship that may occur as a result of basing charges entirely on the contribution of a property to the stormwater system, TEC advocates a two-part tariff with a fixed service charge and a sliding scale of area based charges. This would reflect the fact that all customers benefit to at least some extent from drainage works, whether or not their property is directly affected while still providing strong polluter pays signal.

To ensure that the Councils carry out required stormwater and environmental improvement works, funds raised from stormwater charges should be equivalent to expenditure. Any revenue in excess of current capital expenditure (where that expenditure is necessary and environmentally responsible) should be quarantined and directed to reducing the volume and improving the quality of water carried in drainage systems. Targets for both quality and quantity of stormwater should be established based on the hydraulic capacity of catchments rather than the hydraulic capacity of drains. Such targets should include requirements to restore and rehabilitate a minimum length drainage canals to more natural, stream habitat.

### **Prices for transfer of bulk water to Hunter Water**

TEC believes that present arrangements governing prices for transfers between Hunter Water and the Central Coast councils are generally appropriate.

We note that both Gosford and Wyong Councils are in discussion with Hunter Water regarding proposals for inter-regional water banking (Gosford City Council, 2012; HWC, 2012). We believe that this option requires detailed scrutiny to determine environmental costs and benefits. While such an arrangement may maximise regional storages (HWC, 2012) and reduce need for future augmentation, further details are required to fully assess this option. This arrangement could amount to augmentation by stealth unless clear rules are established to determine how and when such transfers operate. The need for inter-regional banking should be considered a lesser priority against alternatives such as further demand management and increased water recycling. Impacts on river flows and the Hunter River estuary should also be considered.

### **REFERENCES**

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