

15 March 2013

Mr Jim Cox
Chief Executive Officer
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB POST OFFICE NSW 1230

Dear Mr Cox

RE: DRAFT PRICING DETERMINATION AND REPORT FOR WYONG SHIRE COUNCIL

Thank you for the opportunity to review the draft Pricing Determination and Report for the Wyong Shire Council water supply authority released on 19 February 2013. As a general summation we are very disappointed with the outcome of the determination, and in particular the impacts that it will have on the financial sustainability of Council as a water supply authority. The draft Determination was considered by Council at its meeting of 13 March, at which the Council unanimously resolved:

- 1 That Council provides a response to the draft IPART price proposal outlining its concern with the proposal.
- 2 That Council formally record its concern in regard to the potential financial losses in the water a sewerage fund over the next four years if the draft prices are retained and the likely result in reduced levels of service to our community resulting from that financial position.
- 3 That Council note its extreme concern that the draft IPART pricing may lead to Council being unable to meet its public health and environmental compliance responsibilities.

IPART states in the Report that Wyong Shire Council's water supply authority revenue requirement over the next pricing path will decrease at 0.5% per annum in real terms, whereas Gosford City Council's water supply authority revenue requirement will increase at 3.3% per annum. This is an extraordinary outcome and, while growth in Wyong Shire may not be as high as previously expected, the difference in annual revenue growth between the two water supply authorities is difficult to reconcile. Given the relatively stable nature of Wyong's water business and the increasing age of much of Wyong's system infrastructure it is difficult to understand how IPART can justify a real decrease in revenue requirements.

As an absolute minimum Council's real revenues need to be maintained. If the draft Determination is implemented as it stands, Wyong's loss will be an estimated \$24.7 million over the four years of the price path. This will have significant impacts within the organisation and potentially in the wider community through reduced service levels. Given the limited timeframe to review the documents these impacts are still being assessed but currently, as the chief adviser to Wyong Shire Council, I could not guarantee continuity of supply or achievement of public health and environmental standards if the draft Determination is implemented.



IPART has based its assessment of efficient operating costs on 2011/12 expenditures. This approach is flawed as income in that year was substantially below forecast due to drought and the associated water restrictions that were in place between 2004 and 2012. A number of operational changes were made during that time in order to mitigate the impact on the business, including reductions in resourcing, service levels and maintenance activities such as flushing programs. These changes were made for prudent and responsible financial management purposes under the circumstances existing at the time. This approach was not, nor was it ever intended to be, a sustainable operating model. It was always the intention to return to normal levels of resourcing, servicing and maintenance once water restrictions eased. For Wyong's water supply authority business to be sustainable it is imperative that IPART bases its assessment of revenue needs on a sustainable operating model, including appropriate levels of resourcing and maintenance expenditure.

The draft determination will also make it extremely difficult to establish the Central Coast Water Corporation (CCWC). The establishment of the CCWC is taking place in accordance with legislation enacted by the NSW Government, and the establishment will place a large financial impost on both Wyong and Gosford Councils. IPART's draft decision to exclude the costs of the establishment and interim operation of the CCWC from the assessed revenue needs presents a financial barrier in the establishment process. Further, the increased disparity in pricing between Gosford and Wyong Councils resulting from the determination will make it difficult to set uniform charges for CCWC's future customers in a fair and politically acceptable manner.

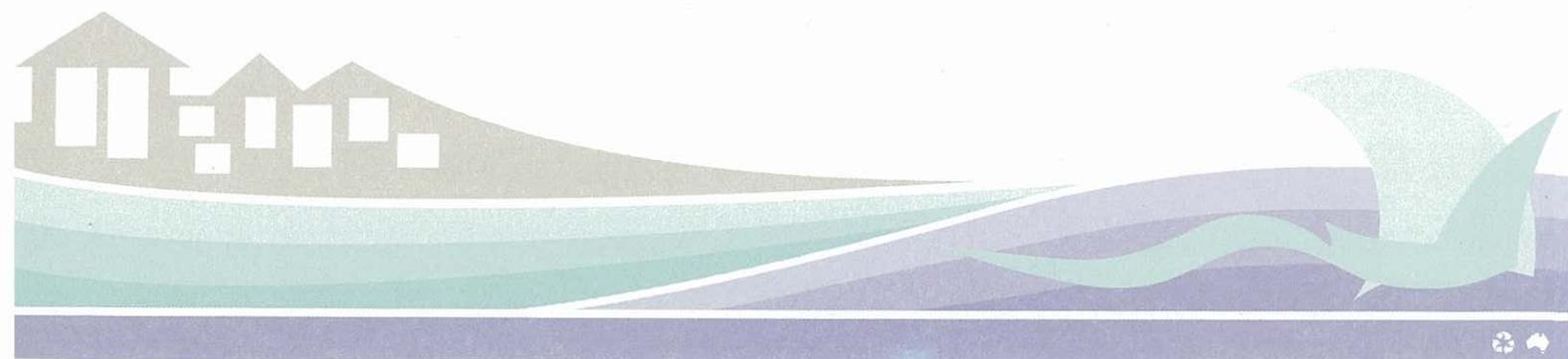
There are numerous detailed issues in the draft Determination and Report that we believe need to be addressed. Our comprehensive response to these issues is set out in the attached Response Report. Please note that we do not have any objections to the Draft Determination and Report for the Review of Calculation Parameters for Developer Charges.

In closing I refer to the meeting in Wyong on 4 March 2013 between Council staff and Ms Chadwick and Ms Garnier from IPART. That meeting was particularly useful and constructive as it enabled discussion around the key issues faced by Council arising from the draft price determination. I am hopeful that the constructive nature of that meeting will follow through to a more appropriate and reasonable final pricing determination for Wyong Shire. To this end I look forward to further discussing these matters with you when we meet on 21 March.

Yours sincerely



Michael Whittaker
General Manager





**Wyong Shire Council
Draft IPART Pricing Determination
Response by Wyong Shire Council**

15 March 2013



Draft IPART Determination Response

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Date: 15 March 2013

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Draft IPART Pricing Determination – Response by Wyong Shire Council

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Wyong Shire Council (Council) provides the following comments regarding the Independent Pricing and Regulatory Tribunal's (IPART) draft determination and report *Prices for Water, Sewerage and Stormwater Drainage Services from 1 July 2013 to 30 June 2017*.

1 FINANCIAL ISSUES / IMPACTS

a) General Overview

Council requests that the Tribunal take particular cognisance of the impact of the following matters on the financial position of Council's Water and Sewerage business when addressing the items raised in this response.

- The draft determination results in Council's Water and Sewerage business being in deficit position for the duration of the determination on the back of accumulated losses from the current determination period
- The draft determination does not accurately reflect the true cost of doing business
- The ongoing losses of the business impact on its ability to borrow external funds
- The base year for expenditure escalation should not be 2011/12, when costs were scaled back in line with reduced income as a result of the significant drought that was experienced on the Central Coast
- The exclusion of Central Coast Water Corporation (CCWC) costs seriously jeopardise its progression
- The Weighted average cost of capital (WACC) does not adequately compensate Council for its risk of doing business and required return on investment.

The following is provided in support of the above points.

b) Draft IPART determination leads to unacceptable deterioration in Council's financial position

The prices proposed in Council's submission to IPART were calculated with the intention of returning each business to a breakeven or better position by June 2017.

Council notes that the Tribunal has assessed Council's revenue requirements at 27% lower than proposed by Council, and a 14.5% reduction in operating expenditure.

This will have a significant detrimental effect on the financial sustainability of the Water and Sewerage business and places the business in a loss making financial position for the duration of the determination period.

As noted above, the revenue reduction is partially offset by a reduction in allowable operating expenditure, but still results in losses each year.

IPART acknowledges this: "Wyong Council will see its financial performance and financial position deteriorate over the 2013 determination period". Over the last 4 year determination period 2010 to 2013, the Water and Sewerage business accumulated \$60.4m of losses. (excluding capital grants and contributions)

Council feels that forcing the business into a continuing loss making and cash depleted position is unacceptable and financially unsustainable.

The table below shows the impact on Council's financial position during the determination period. It shows the deficit result in each year, which coupled with losses from the previous four years, will compel Council into further borrowings.

Income / Expenditure Table										
	Council's Submission					Draft Determination				
	13/14	14/15	15/16	16/17	TOTAL	13/14	14/15	15/16	16/17	TOTAL
Income	86,425	94,815	103,612	113,031	397,883	80,209	79,713	78,969	78,124	317,016
Expenditure	93,860	93,655	95,333	96,926	379,775	87,098	86,392	85,792	82,391	341,673
Profit/(Loss)	(7,435)	1,160	8,278	16,105	18,108	(6,889)	(6,679)	(6,823)	(4,267)	(24,658)

All figures are '000s, in \$12/13 (not inflated).

c) Draft IPART determination does not reflect the true cost of doing business

Council's view is that the draft determination does not accurately reflect the true cost of operating the business. Following are some material areas of concern:

i) Corporate Overheads

IPART's consultant, Oakley Greenwood raised a number of issues in relation to Council's corporate overhead expenditure.

Oakley Greenwood felt there was no nexus between some of the costs included in the corporate overhead allocation pool and the water, sewerage and drainage businesses and should be removed. There may have been a level of misunderstanding here.

The information Council provided to Oakley Greenwood included a full list of all of Council's direct and corporate overheads. To clarify, direct overheads refer to the costs that are attributed to Services and Products within Council from their parent responsibility centre. For example roads maintenance management is a direct overhead charged from parent responsibility centre "Roads Management" to its child responsibility centres; Roads, Footpaths and Shared Pathways, Roadside Inventory and Off-street Carparks. These management costs do not go into the pool of Shared Corporate Overheads and subsequently are not charged to any Water and Sewer funds.

In summary the corporate overheads included in Council's submission do not include direct overheads allocated to products within Council, and only include shared corporate costs that are distributed across the entire organisation.

The table below shows those parent Responsibility Centres allocated to child Responsibility Centres in the 2013/14 budget and therefore do not form part of Councils Corporate Overheads for shared services.

Corporate Overhead Analysis	Overhead Budget	
	Total 13/14 Budget \$	Direct Out \$
Direct Overheads (charged from Parent RCs to Child RCs)		
C001 Community and Cultural Development Management	228,973	(228,973)
C011 Community Lifelong Learning Management	217,047	(217,047)
C015 Sport Leisure and Recreation Management	500,856	(500,856)
C018 Open Space Management	929,275	(929,275)
C024 Community and recreation Management	505,560	(404,448)
C025 Roads	936,997	(800,000)
C030 Roads Management	1,657,293	(1,657,293)
C034 Waste Management	572,262	(572,262)
C056 Infrastructure Management	803,798	(258,289)
C087 Place Management	1,202,338	(1,202,338)
C091 Sustainability Management	484,936	(484,936)
C102 Economic and Property Development Management	575,483	(575,483)
C106 Community Buildings Management	474,318	(170,754)
C110 Land Management	463,574	(372,402)
C111 Building Certification and Health Management	2,197,282	(2,197,282)
C115 Compliance and Regulation Management	648,744	(648,744)
C122 Development Assessment Management	422,781	(422,781)
C124 Development and Building Management	649,819	(649,818)
Total	13,471,336	(12,292,981)

Oakley Greenwood also felt the methodology currently used to allocate overheads across the business was not appropriate and Council should revert to the method used in prior years. In the previous determination, IPART expressed concern about the methodology used at that time to allocate corporate overheads to the water business, and asked Council to apply a more transparent and simple methodology.

This prompted Council to implement the mechanism currently in place which allocates corporate overheads based on each unit's proportion of total operating expenditure. Council believes there is a strong relationship between the quantum of each units operating expenditure and the level of corporate support that unit requires.

This pool of costs exists regardless of the mechanism used to allocate them. Whilst Council continues to implement productivity improvements to reduce its total overhead cost Council believes that there is an equitable distribution to the water, sewerage and drainage business.

Council reinforces that it operates a full corporate costs distribution model, whereby corporate costs are allocated across the entire organisation based on each business's proportion of total expenditure. Council believes this methodology provides improved accuracy of product costing and is a simpler and more transparent mechanism for cost allocation.

Supporting our view that overheads are reasonable PricewaterhouseCoopers (PWC), in November 2011, were engaged by Gosford City and Wyong Shire Councils to conduct a cost benefit analysis of the financial and non-financial advantages and disadvantages of transferring Water and Sewerage services to the Central Coast Water Corporation. Their analysis included detailed forecasts of the cost of staff and shared resources that would transfer to the Corporation from other parts of the organisation (i.e. support functions).

The corporate overhead allocations included in Council's submission for each year approximately align with, or are lower than, the estimates determined by (PWC), as is evidenced in the table below.

Corporate Overheads	2013/14	2014/15	2015/16	2016/17
Council submission	13,689	13,715	13,835	13,910
PWC analysis	Not provided	14,448	13,072	13,136
Draft determination	10,661	10,715	10,768	10,822

Based on the above, Council believes that the Corporate Overheads included in Council's submission fairly represent the shared costs of operating the water business and therefore requests the tribunal to increase the allocation for Corporate Overheads to the level contained in Council's submission.

ii) Growth Escalator

Council agrees to remove the growth escalator from expenses other than Materials.

iii) Electricity

IPART recommended using the Australian Energy Market Operator (AEMO) 2012 annual growth forecasts to inflate the cost of electricity each year. These are lower year on year increases than Council's estimate. Council's current electricity supplier contract expires on 1 July 2014, and provides for substantial increases. See table below.

Rate increase from 2012/13 to 2013/14 as per current contract	
Peak usage	1.6%
Shoulder usage	10.0%
Off Peak usage	2.3%
LRET charges	7.3%
Greenhouse gas abatement	10.9%
NSW Energy Savings scheme	22.4%

While Council will accept the use of AEMO forecast increases for 2014/15 through to 2016/17, Council does not believe it is reasonable to use the AEMO forecast for 2013/14 of 1.5% as this is substantially less than the known increases Council is contractually bound to incur. Council estimated the weighted average cost of the above increases to be 9% for 2013/14.

iv) Allowance for regulatory depreciation

Council would request that IPART consider changing the average useful life for new assets from 100 years to a weighted average useful life of 73 years, in accordance with Council's submission. IPART should note that Wyong Council and Gosford Council have undertaken a substantial amount of work on the alignment of asset categories, subcategories and useful lives used, to ensure a consistent approach ahead of the transition to the CCWC.

The useful lives by asset class and component detailed in Council's submission are those currently in use and reflect Council's actual asset register. Council undertakes a fair value asset revaluation every three years in accordance with Australian Accounting Standards and the Department of Local Government Code of Accounting Practice.

The difference between the regulatory asset base and the actual depreciation expense as published in Council's Annual Financial Statements is significant and a major contributor to ongoing losses, as prices are not recovering the true depreciation.

	2013/14	2014/15	2015/16	2016/17
Regulatory Depreciation	5,700	6,000	6,200	6,400
Projected actual Depreciation	31,108	31,178	31,258	31,353

This disparity between the real and theoretical depreciation will have a material adverse impact on future cashflows as Council needs to replace assets as they depreciate at replacement cost, not the regulated cost.

v) Interest on Borrowings

IPART's building block methodology does not take into account the real cost to Council of servicing long term debt used to fund capital programs. As at 30 June 2012 Council had long term debts of \$195.1m, annual interest costs of around \$16.5m per year, and total debt serving costs of \$26.5m. These costs are not recognised as a cost by IPART but are a real cash and P&L costs to the business.

d) WACC does not represent an appropriate return on assets

Council notes that IPART has set the post-tax real weighted average cost of capital (WACC) at 4.2%, compared to 5.6% proposed by Council, which was in alignment with the WACC used for Sydney Water Corporation and Sydney Catchment Authority. Council notes that it will be updated to reflect market conditions at the time of the final determination. At 4.2% Council does not believe that it appropriately compensates Council for the risks associated with the operation of a water supply business and the required return on investment.

The impact of the change to the WACC across the pricing path is approx \$29m.

Council requests the Tribunal 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. Council also feels the market risk premium component of the WACC should be increased to take into account the increased risk water security poses to the business.

The above comments can also be taken into consideration in IPART's current review of WACC related issues.

e) Draft IPART determination impedes Council's capacity to borrow impeded

Internal analysis and a recent review undertaken by NSW Treasury-Corp indicate that Wyong Shire Council's capacity to borrow substantial amounts is limited. The underlying business fundamentals of the Water and Sewerage business support this view.

At 30 June 2012, on a consolidated basis, Wyong Shire Council had \$197.6m in loans outstanding and incurred \$16.5m of interest costs in that year. The majority of loans (\$195.1m) exist in the Water and Sewerage business where Council have traditionally used long term loans in order to spread the cost across the useful life of the asset.

This puts Council's Water and Sewerage business Debt Service ratio at 38.1%, and a consolidated ratio of 13.3%. This compares unfavourably to the Department of Local Government (DLG) target of

10%. While the DLG deem a debt coverage ratio of up to 15% acceptable for growth Councils, it is highly likely, based on the draft IPART determination that there will be an ongoing need to borrow in the Water and Sewerage business and push this ratio higher.

Based on the draft IPART Water and Sewerage pricing, the Water and Sewerage business will continue to record operating losses and cash deficits during the determination period. In this case, it is highly likely that Water and Sewerage will need to look to borrow more externally, however given the underlying performance of the business external borrowings may be difficult to obtain.

Comparison of Wyong's Water and Sewerage business Debt Service Ratio, and debt as a % of revenue is already very high compared to our neighbouring Council.

Council	Net Debt Service Cost	Revenue from Continuing Operations	Result
Gosford City Council	\$16.9m	\$68.5m	24.7%
Wyong Shire Council	\$26.5m	\$69.5m	38.1%

Council	Debt as a % of Income from continuing operations - 30 June 2012
Gosford City Council	132%
Wyong Shire Council	280%

Both of these comparatives, and other measures indicate that as an entity, the Water and Sewerage business is highly geared and has limited capacity to borrow significantly more. Council would prefer to reduce borrowing to meet DLG targets as opposed to increase borrowings to an unacceptable level.

The underlying business fundamentals of the Water and Sewerage business suggest that further borrowing capacity may be limited. As noted above the draft IPART Water and Sewerage pricing will result in the Water and Sewerage business continuing to record operating losses and cash deficits. It would not be prudent to borrow while the underlying financial fundamentals were not sustainable.

Council may be forced to seek borrowings from a second tier financial institution, at a higher cost and risk. In the past there has been little interest shown by second tier institutions as they have not been able to provide funding to the magnitude that was required, due to the counter-party risk considerations.

If borrowing to the magnitude required (estimated at \$80m in the determination period) was contemplated and even possible, this would increase borrowing costs by \$4.8m per annum (based on 6% borrowing rate applied to the \$80m), and further impact the loss position. In addition, consolidated total debt service cost (including principal repayments) would grow by up to \$11m per annum (based on current debt service cost as a % of total borrowings of 13.97%, as at 30 June 2012), placing more pressure on cash-flow.

In this situation the Water and Sewerage business Debt Service Ratio would grow to approximately 53.9% and would be considered poor by the DLG. Further, our debt as a % of revenue would grow to 396% (\$195m of existing debt plus \$80m of new debt divided by \$70m) and the resulting gearing ratio would further impact the capacity to borrow.

In summary, our view is that the Water and Sewerage business' future capacity to borrow is limited. The high gearing ratios, coupled with negative cash and 8 years of accumulated losses totalling over \$84m would, in Council's view, deter any rational lender from extending significant loans to Council. Under the determination, cash and investment levels are forecast to deteriorate to dangerously low levels throughout the determination period.

This is a serious liquidity issue which the Council requests the tribunal to consider. It is Council's view that this is not a sustainable financial model and this would pose severe risk to the surety and quality of service provided.

2 OPERATIONAL EXPENDITURE ISSUES

a) CCWC Costs

i) CCWC Establishment

A substantial change impacting Council and its operations over the next pricing path will be the progressive amalgamation of the Wyong Shire Council and Gosford City Council water businesses into the Central Coast Water Corporation (CCWC). The CCWC was created to manage the Central Coast's water and sewerage services. It was created under legislation (Central Coast Water Corporation Act) by the NSW State Government. The formation of the CCWC will require significant expenditure to facilitate its establishment.

Council now notes IPART's rejection (Report Section 5.5.1) of all expenditure associated with establishment of the CCWC notwithstanding that IPART's consultant Oakley Greenwood had previously recommended that at least some expenditure be admitted for pricing purposes.

The draft determination unfortunately offers little in the way of explanation of why all CCWC expenditure was excluded particularly given that the CCWC is mandated by State Government legislation.

At a meeting on 4 March with Council staff IPART indicated that it had no powers to admit CCWC expenditure in advance of the CCWC commencing operations and that in view of this the recovery of any CCWC establishment expenditure had to wait until after the CCWC became operational as an entity.

Given the importance of this issue IPART should have made this restriction on expenditure clear at the beginning of the pricing process in order to allow Council to better consider its position.

It is acknowledged that the Issues Paper does refer to the CCWC in Sections 1 and 2 indicating that "At this stage we do not have the power to determine prices for the Corporation". The fact that the CCWC does not currently exist in a form that would necessitate price setting by IPART is accepted by Council.

However the separate issue of whether (or not) CCWC establishment expenditure would be admitted for pricing purposes for the Councils is ambiguous at best.

The comments in Paragraph 4 (Section 2) of the Issues Paper could reasonably be interpreted that CCWC establishment expenditure would be a consideration in price setting for the Councils..

As the current customer base of the Councils is basically the same as for the CCWC all the Councils were proposing was that expenditures were spread over two price paths to minimise

cost "shocks". This type of approach has been historically acceptable to IPART and represents a prudent and efficient approach to minimising customer impacts.

If Council is unable to recover this expenditure through pricing during this price path, it must either fund this expenditure from reserves which are already low or delay expenditure and therefore transition timeframes.

Given that the draft determination will put Council in a difficult financial position can IPART advise how Council is expected to fund the ongoing establishment of the CCWC?

If this issue cannot be resolved satisfactorily for all parties the future of the CCWC establishment process must be placed in question.

In view of the above Council seeks restitution of CCWC Establishment funding.

ii) CCWC Board

While Oakley Greenwood has recognised a distinction between CCWC establishment expenditure and expenditure associated with recurrent CCWC Board costs (and allowed some expenditure for these functions) IPART has not made this distinction in the draft determination and has removed all expenditure.

At present the CCWC Board has two key functions;

- strategic planning role
- preparing the CCWC to become a Water Supply Authority

The strategic planning function is a role previously undertaken by the now defunct Gosford Wyong Councils' Water Supply Authority Board which provided a review/recommendation function associated with the management of the Gosford Wyong Joint Water Supply Scheme.

As the CCWC Board continues to have an active role in the management of the Joint Water Supply the Board costs sought in Council's submission are considered legitimate for pricing purposes.

If the CCWC Board did not exist the Councils would need to establish some form of alternative arrangement that would still incur costs.

In view of the above Council seeks restitution of CCWC Board funding.

b) Mardi Water Treatment Plant Chemical Costs

In its submission to IPART in September 2012 Council made an allowance for water treatment chemicals that reflected recent expenditures (about \$200k per annum) and historical water quality.

Since providing the submission a number of factors have significantly impacted on the operational costs of the Mardi Water Treatment Plant (MWTP).

The increased costs are associated with the recent transition to harvesting higher stream flows to meet environmental and yield objectives. Significant difficulties have been experienced in operating MWTP with the changed feed water quality.

A number of process changes have been required to keep the plant operating efficiently. These changes involve significant modification to the chemical dosing required at the plant.

An overview of the contributing water quality issues is provided in the "CAPITAL EXPENDITURE ISSUES – DISSOLVED AIR FLOTATION" section of this response to IPART. It is also advised that MWTP, as a "Direct Filtration Plant" was not designed to consistently treat the quality issues outlined in "CAPITAL EXPENDITURE ISSUES - DISSOLVED AIR FLOTATION".

As processes are still being refined and operational experience is being gained with the process modifications the updated total estimated costs are in the range between \$3.3M and \$7.7M over the next price path with a likely cost of \$5.0M.

Associated with the higher turbidity levels and chemical dosing rates is a greater volume of sludge that needs to be handled and disposed of. This is discussed in c) below

While recognising that this is a late change Council requests that increased operating costs of at least \$5.0M over the next price path be admitted in finalising the price determination.

c) Sludge Dewatering and Disposal at Mardi Water Treatment Plant

The sludge lagoons at MWTP have never been emptied in the 30 year operating history of the plant.

The volume stored in the sludge lagoons is approaching the capacity of the lagoons and dewatering and disposal of sludge is required to enable the continued operation of the lagoons.

In its submission to IPART in September 2012 Council made an allowance of \$500,000 to provide for partial emptying of the sludge lagoons. Since the submission a number of process changes at MWTP have been required to accommodate changes to the feed water to the plant as noted in Section b) above.

These changes have resulted in significant increases in the amounts of sludge being produced at MWTP.

Based on the likely range of increased chemical usage the total cost to dewater and dispose of sludge over the price path is now estimated to be the range of \$0.85M and \$1.8M with a likely cost of \$1.2M

While recognising that this is a late change Council requests that operating costs of at least \$1.2M over the next price path be admitted in finalising the price determination for sludge management at MWTP.

d) Inappropriate Reference Year (2011/12)

Oakley Greenwood recommended the budgets for a number of forecast operating expenditures be based on 2011/12 actual expenditure with appropriate annual increases. One such expenditure item is labour.

Council does not agree with this simplistic approach. During this time income was substantially below forecasts due to water restrictions that were in place between 2004 and 2012 and a number of operational changes were made to mitigate the impact on the business. Such operational

changes included reductions to resourcing and service levels including reductions to ongoing maintenance programs such as abandonment of flushing programmes..

Council was, during this period, attempting to be prudent and responsible financial managers in reducing costs to offset reduced revenue. However, this is not, nor was intended to be, a sustainable operational model. It was always the intention that the business would return to normal levels of service once restrictions were eased.

Subsequent to the submission, Council has prepared its draft strategic plan for 2013/14 which includes some reduction to budgeted FTE. Reductions below this level are not feasible, as normal servicing and maintenance programs need to resume ensuring water quality and safety levels are met.

Council requests IPART to reinstate the labour estimates included in Council's submission.

3 CAPITAL EXPENDITURE ISSUES

a) Mardi to Warnervale Trunk Main

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

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 it is considered that 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 ie 13 ML/d.

Council is seeking full funding for the Mardi to Warnervale Trunk Main in the 2013-2017 price path.

b) Mangrove Creek Dam Upgrade

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. Without the modifications maximum storage capacity at Mangrove Creek Dam will be kept to artificially low levels (80% of total capacity).

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 the Hunter. It is noted that the potential need for transfers to the Hunter has been increased by the decision not to proceed with Tillegra dam.

It is considered that in 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.

It is noted that the recent Central Coast drought was unprecedented and 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. It is considered that 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 being actively pursued.

We argue 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.

In this regard attention is drawn to the editorial in the 13 March 2013 Central Coast Express (Wyang). The editorial applauded the provision of the Mardi to Mangrove Pipeline ("missing link") and expressed optimism that storage would increase further. It is not unreasonable to infer that this expresses a broader community sentiment.

As advised to Oakley Greenwood it is considered that, as a minimum, expenditure in the next pricing path be admitted for the preparation and completion of design and pre-construction activities for the resolution of the spillway constraints to enable a rapid implementation of necessary works early in the following price path.

The following "bare bones" minimum expenditure to facilitate design / pre-construction is requested:

2013/14- \$250,000
2014/15- \$250,000
2015/16 - \$350,000
2016/17 - \$100,000

These expenditure values are expressed in 2012/13 dollars at 100% cost to be split 50/50 between each Council.

Failure to initiate this project will potentially put the Councils in a very disadvantageous position should drought reoccur.

c) Dissolved Air Flotation Plant

On the recommendation of Oakley Greenwood, IPART's draft decision is to disallow all expenditure on this project.

Notwithstanding the IPART decision Council believes that further deferment of this project presents an unacceptable risk to water quality.

Oakley Greenwood'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.

This 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, recommended by GHD, were implemented to address these risks whilst operational data and experience was being 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).

As indicated in Section 2 b) the Mardi Water Treatment Plant was not designed to consistently treat the water quality issues outlined above.

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 Oakley Greenwood's assertion in the Wyong report, p.93) not suitable "as a long term solution". The interim measures are not sufficient to allow further deferment of the project.

Oakley Greenwood's recommendation to IPART relies upon the "total system redundancy now provided as a result of interconnection with GCC" (Wyong Report p93). Oakley Greenwood 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, colour and turbidity 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.

Oakley Greenwood also inappropriately describe a production volume of 120ML at Mardi Treatment Plant as GHD's "threshold level for triggering an upgrade". The GHD report does not set this value as a trigger level being merely provided as one example of why the interim operational measures may not be sufficient. Recent experience demonstrates there are other reasons why the interim measures may be insufficient, and Oakley Greenwood's inappropriate 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 recommends that IPART revisit and recognise the flaws in Oakley Greenwood'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.

d) Drainage Unallocated (Unidentified Works)

Council notes that IPART has removed \$18.5M in funds from Drainage Capital Unallocated on the basis that this was not prudent.

While it is considered that making a contingency allocation for, as yet unidentified projects, is a prudent course of action for a water agency attention is drawn to a Council email to IPART dated 15 November 2012 wherein the previously unallocated funds have now been allocated to specific projects.

In view of this, Council requests that IPART reinstates the \$18.5M funding sought albeit for the projects that have now been identified.

It is also noted that Oakley Greenwood had no objection to Council's proposed 2013/14 stormwater capital works program. Council fails to understand why the consultant has indicated that the future programmes are not prudent and not efficient even through the philosophy and methodology was basically the same used for 2013/14.

4 IMPACTS ON STAFFING / RESOURCES

The impacts of the draft price determination on staffing and resourcing are currently being assessed and will take some time to clarify.

At present Council staffing is operating closer to a "skeleton" scenario with a significant number of unfilled skilled vacancies (9) in key areas.

Five of these vacancies are critical field positions (Water Service Operators) with four engineering and management positions unfilled. One of the difficulties Council is experiencing, particularly in the engineering areas, is attracting suitably experienced staff under the current pay structures. Paying premiums on salaries to attract staff will put further pressure on finances.

Given the vacancy situation it is not unreasonable to state that much current day to day activity has an element of "putting out fires" and is reactive rather than proactive. Reduced revenues will also put further pressure on this situation.

The reduced staffing has created an expenditure pattern more reflective of Council's 2011/12 operational expenditure profile which has been used for financial forecasting purposes by IPART but has been challenged by Council as unrepresentative of Council's normal operating environment.

One outcome of the current situation is that a number of key activities have had to be reduced for example mains cleaning and programmed asset maintenance.

For Council to operate efficiently and sustainability and undertake its community obligations these nine vacancies will need to be filled.

However given the financial outcomes/limitations of the price review in particular the 14% reduction in allowed operational expenditure Council will be in a very difficult position in maintaining service standards if financial restrictions mitigate against filling these vacancies.

5 EFFICIENCY IMPROVEMENT TARGET

In Report Section 6.1.12 IPART has applied a 5% efficiency target on capital expenditures. This efficiency gain is applied to each year's capital expenditure.

Apart from not providing any explanation of how this percentage was deemed an optimum target IPART appears to have taken no recognition of Councils processes already in place to achieve greater efficiencies in the procuring of capital infrastructure.

In this regard Section 2.6.7 of Council's pricing submission sets out what has been achieved to date.

While Council has no objection to the principle of an efficiency target it is considered that 5% is too high and that the efficiency targets proposed by Halcrow for the current price path are more reasonable.

A target of 5% is more reflective of an organisation that is in a much less advanced stage than Wyong Council.

6 UNIFORMITY OF CHARGES TOWARDS CCWC

In Section 2 of the June 2012 Issues Paper IPART foreshadowed that potential alignment of price structures would be a consideration in the price review.

Given the CCWC timetable and the associated benefits of more uniform charges across the Central Coast, Council is surprised that the draft price determination does not seem to have progressed this objective to any great extent particularly with some of the material charges such as with the water service charges.

For example with the 20mm water service charge the Gosford price increases from about \$120 in 2013/14 to about \$165 in 2016/17 whereas the Wyong charge goes in the opposite direction from \$165 in 2013/14 to \$112 in 2016/17.

A similar situation exists with the 25mm water service charge.

Similarly the differences between the sewerage service charges are quite stark.

The application of drainage service charges is quite different ie Gosford makes no distinction between residential and non residential whereas Wyong does.

In view of this the community would not be unreasonable in asking how IPART proposes to reconcile the current differences in prices/methodologies, and develop a suite of common CCWC charges (for implementation on 1 July 2017) that will apply across the Central Coast, without creating price shocks/volatility with customer bills.

IPART in Report Section 1.2.1 states that it has applied the glide path principle to Wyong's prices. While this principle is not unreasonable in achieving price smoothing/transitioning it has unfortunately not assisted in some case in the development of more uniform charges between the Councils eg 20 mm water service charge.

Notwithstanding the above comments Council is appreciative that IPART has accepted proposals by the two Councils to standardise as many liquid trade waste charges as practical.

7 LENGTH OF PRICING PATH

Given that IPART in Section 10.3.1 has foreshadowed that Council's financial performance and position will deteriorate over the next pricing path Council has considered the practicality of a two year price path given the potential financial risks.

While this proposition does have some attraction it is considered that such a price path will become out of sequence with the establishment of the CCWC (a four year path will be in sequence) and that the limited staff resources/time available would not be compatible with a new price review starting in 2014.

In view of the above while a four year price path presents financial risks Council has no alternative but to accept such a price path.

8 PRICE STRUCTURES

The following comments relate to the Schedules in the Draft Price Determination;

Schedule 1 (Water Supply Services)

There is no price set for metered residential vacant (development) land with multiple meters.

In these scenarios meters (multiple) are usually installed in early stages of development with sub division often not occurring until after completion of dwellings. Without a price set for this scenario we are limited to a single service charge (Table 1) until either;

- dwellings are completed (when it becomes a multi premises), or
- sub division occurs (when they become standalone dwellings/vacant land).

In addition, we may have metered residential properties (other than vacant or development land) with multiple meters but which are not multi premises.

We therefore require a price set to enable us to charge residential properties (which are not multi premises) where there is more than one meter. We recommend prices as per Table 3

Schedule 1 (Water Supply Services)

Section 8 (a) (c) (1) states that Council is to levy water usage charges on the Owners Corporation of strata units rather than on the individual unit owners.

This is contrary to current practice of levying on unit owners in proportion to unit entitlement which allows eligible pensioners to access full rebate entitlement, especially as service charges reduce over 4 year price path a higher rebate would be available to offset usage charges. Where charges are levied on the body corporate, eligible pensioners can not access a concession.

We require a pricing determination that allows the division of water usage according to unit entitlement (current practice) or by number of properties in the strata complex so that we can levy the owners of the strata units.

We understand that whilst IPART has authority to set maximum prices it does not have jurisdiction to direct how we levy these charges however although the determination appears to do so.

Schedule 2 (Sewerage Services)

Section 4.4 (a) (4) at Page 19-20 shows the calculation as SC/n where SC = the sewerage service charges in Table 7.

Should this Section / Subsection simply read "*the charge in Table 7*" ?

Schedule 7 (Definitions)

Discharge Allowance - ".....applies to the entire Multi Premises and,.... is not to be multiplied by the number of Properties within that Multi Premises".

Depending upon the response to the above question, this part of the definition of *Discharge Allowance* may need to be reviewed

Exempt Property Sewerage Charges

The draft determination does not provide prices for sewerage services supplied to exempt properties. In accordance with legal advice previously provided to IPART (and subsequently made available to Council), legally we are unable to levy service charges on exempt land unless the basis of the charge is different to those levied on non-exempt land.

To this end IPART previously set water closet and urinal fees that we were able to levy and, as the basis of these charges was effectively the number of toilets, we had a mechanism to raise revenue from this customer group.

Without any exempt property charges we appear to have no legal avenue to levy charges on exempt land that we provide sewerage services to - be it residential or non residential.

Schedule 3 (Stormwater Drainage Charges)

The term "Stormwater" should not be used. Aside from causing confusion (among the public and within Council) there is no legal authority for Council to levy such a charge

This charge / term is frequently confused with the Stormwater Management Charges that are levied under the LGA. As the Water Management Act makes no reference to Stormwater (refers to Service Charges and to Drainage Services) Council has no legal authority to levy a service charge for Stormwater Drainage.

Table 12 - does not include a 20mm Non Residential Drainage Service Charge

Table 12 - refers to 20mm water service charge for calculation of Drainage Service Charges for meters sizes not specified. Should this refer to a 20mm drainage service charge.

9 HUNTER RELATED ISSUES

Reference is made to Report Section 3.6.

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 for the price of interchange transfers between Hunter Water and the Councils.

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

10 SEPTIC WASTE CHARGES

Council notes IPART's position (Section 9.5) on septic waste charges..

It is understood that IPART has reached this conclusion after review of documentation provided by Council (email of 16 January 2013) clarifying Tables 3, 4 and 5 (Appendix 4) of Council's pricing submission.

In relation to Table 3 (Appendix 4) of Council's price submission please note that all charges except the Category S Application, Annual and Reinspection Fees relate to a contract service for the removal / transport of septic tank effluent/sludge from residential and non residential properties currently not serviced by a reticulated sewerage system. Council accepts IPART's decision that all charges relating to these contract services can now be set by Council.

In relation to the Category S Application, Annual and Reinspection Fees in Table 3 these fees must be retained as they are used by Council's Liquid Trade Waste group in managing and monitoring (as a monopoly service) a large number of privately owned and operated sewage pumping stations. These facilities are mandated as Category S liquid trade waste dischargers under State Government Office of Water Liquid Trade Waste Guidelines.

A similar situation exists with the Category S Application, Annual and Reinspection Fees for Chemical Toilets in Table 5 (Appendix 4) of Council's price submission. Once again these fees must be included in the price determination for the same reasons as outlined above. In respect of Chemical Toilets it is noted that IPART has already included the volume charge for chemical toilets as Item 33 Miscellaneous Charges.

Table 4 (Appendix 4) relates nightsoil facilities. Although these charges should also be included in the price determination (being Category S trade waste) the reality is that these charges are only a contingency as no nightsoil service is currently being undertaken in Wyong or has been for some time.

It would be appreciated if IPART could amend the draft price determination to reflect the above.

11 OTHER ISSUES

a) Wyong Price Determination

i) Table 15 (Excess Mass Charges for Liquid Trade Waste)

There are some cases where one Council has an "Excess Mass Charge" and the other Council doesn't. For example Gosford has Pesticides – Organochlorines and Wyong doesn't. In these cases the "Excess Mass Charge" should also be extended to the Council that currently does not have the charge. This will ensure uniformity for all Liquid Trade Waste Charges.

ii) Table 12 (Stormwater Drainage Charge)

Shouldn't the Stormwater Drainage Charge for properties with 25mm and above water meters be related to the 20mm Stormwater Drainage Charge?

b) Wyong Report

i) Table C1 (Appendix C)

The use of “Minimum Water Pressure at property connection” as an ongoing performance indicator is meaningless as it is only a statement of the minimum pressure target for the particular water agency.

The measure should be removed.

ii) Table C3 (Appendix C)

As the first three projects listed in this table are Joint Water Supply related and not Wyong Specific they should be included in Table C2.