

Pricing of backlog sewerage services for Gosford City Council

Determination



IPART

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February 2006

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ISBN 1 920987 51 7

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Determination No 1, 2006

**Section 11(1)
Independent Pricing and Regulatory Tribunal Act 1992**

Gosford City Council

**Independent Pricing and Regulatory Tribunal
of New South Wales**

Reference No: 05/522

1 Background

- (1) Section 11 of the *Independent Pricing and Regulatory Tribunal Act 1992* provides the Tribunal with a standing reference to conduct investigations and make reports to the Minister on the determination of the pricing for a government monopoly service supplied by a government agency specified in schedule 1 of the IPART Act.
- (2) Water supply authorities constituted under the *Water Management Act 2000* are listed as government agencies for the purposes of schedule 1 of the IPART Act. Under the *Water Management Act 2000*, Gosford City Council (the **Council**) is listed as a water supply authority. The services of the Council declared as monopoly services under the *Independent Pricing and Regulatory Tribunal (Water, Sewerage and Drainage Services) Order 1997* are:
 - (a) water supply services;
 - (b) sewerage services;
 - (c) stormwater drainage services;
 - (d) trade waste services;
 - (e) services supplied in connection with the provision or upgrading of water supply and sewerage facilities for new developments and, if required, drainage facilities for such developments;
 - (f) ancillary and miscellaneous customer services for which no alternative supply exists and which relate to the supply of services of a kind referred to in paragraphs (a) to (e);
 - (g) other water supply, sewerage and drainage services for which no alternative supply exists.
- (3) In accordance with section 13A of the IPART Act, the Tribunal has established a methodology for fixing the maximum price for the Council's Backlog Services (**Monopoly Services**). Schedule 3 sets out the Tribunal's reasons for choosing to make a determination that involves setting the methodology for fixing a maximum price.
- (4) In establishing a methodology for fixing the maximum price for the Council's Monopoly Services, the Tribunal has had regard to a broad range of matters, including the criteria set out in sections 14A and 15(1) of the IPART Act.
- (5) Under section 18(2) of the IPART Act, the Council may not fix a price below the price determined by the methodology prescribed by this determination without the approval of the Treasurer.

2. Application of this determination

- (1) This determination sets a methodology for fixing the maximum prices that the Council may charge for the Monopoly Services.
- (2) This determination commences on the later of 1 July 2006 and the date that it is published in the NSW Government Gazette (**Commencement Date**).

- (3) This determination applies from the Commencement Date until this determination is replaced.

3. Replacement of Determination No. 4.2 of 1997

This determination replaces the Tribunal's Determination No. 4.2 of 1997 from the Commencement Date. The replacement does not affect anything done or omitted to be done, or rights or obligations accrued, under Determination No. 4.2 of 1997 prior to its replacement.

4. Determination No 4.1 of 1997

For the avoidance of doubt, the Tribunal's Determination No. 4.1 of 1997 continues to apply within its terms.

5. Concurrent operation of this determination and Determination No. 1 of 2005

Charges may be levied under this determination and where applicable, also under the Tribunal's Determination No. 1 of 2005 (as varied or replaced from time to time).

6. Monitoring

The Tribunal may monitor the performance of the Council for the purposes of:

- (a) establishing and reporting on the level of compliance by the Council with this determination; and
- (b) preparing a periodic review of pricing policies in respect of the Monopoly Services supplied by the Council.

7. Schedules

Schedules 1 and 2 (read with schedule 3) set out the methodology for determining the maximum prices that the Council may charge for the Monopoly Services.

8. Definitions and interpretation

Definitions and interpretation provisions used in this determination are set out in schedule 4.

Schedule 1

Non PSP Properties

1. Application

This Schedule prescribes the methodology for determining the maximum prices that the Council may charge for Non PSP Properties.

2. Non PSP Properties

The methodology for determining a charge (**Non PSP Contribution Charge**) payable by a Non PSP Property Owner of a Non PSP Property within a Backlog Service Area is as follows:

2.1 The Non PSP Contribution Charge is payable by a Non PSP Property Owner in accordance with clause 2.5 of this schedule.

[Note: In addition to paying for the Non PSP Contribution Charge, a Non PSP Property Owner will also be required to pay for any water or sewer connection fees and charges and plumbing connection costs in order for its Non PSP Property to be connected to the Water Supply System or Sewerage System (as the case may be).]

2.2 A net present value (**NPV**) methodology is to be used by the Council to calculate the Non PSP Contribution Charge. The methodology and the parameters of the NPV calculation are to be the same as the NPV methodology and the parameters of the NPV calculation determined by the Tribunal with respect to developer charges in the Tribunal's Determination No. 9 of 2000 (as varied or replaced from time to time). Details of the methodology and the parameters are set out in the guidelines attached to that determination (as varied or replaced from time to time).

2.3 The Non PSP Contribution Charge must be calculated:

- (a) **in the case of a Property falling within paragraph (a) of the definition of 'Non PSP Property'** - prior to the connection of the first Non PSP Property in that Backlog Service Area to the Water Supply System; and
- (b) **in the case of a Property falling within paragraph (b) of the definition of 'Non PSP Property'** - prior to the connection of the first Non PSP Property in that Backlog Service Area to the Sewerage System.

The Council must submit each calculated Non PSP Contribution Charge to the Tribunal.

2.4 The Non PSP Contribution Charge will be indexed annually by Δ CPI for each year (or part of a year) that a Non PSP Property remains unconnected to the Water Supply System or Sewerage System (as the case may be) after the Water Supply System or Sewerage System (as the case may be) becomes available because of either of the following circumstances:

- (a) the Non PSP Contribution Charge remains unpaid (in whole); or
- (b) a Non PSP Property Owner has not entered into an agreement with the Council to pay the Non PSP Contribution Charge in accordance with clause 2.5(a) of this schedule.

- 2.5 The Council must provide the following payment options to a Non PSP Property Owner for payment of the Non PSP Contribution Charge (in addition to any other payment options which the Council may wish to provide):
- (a) a quarterly payment, payable in arrears, over a maximum of 20 years. The first quarterly payment is payable 3 months after the date that the Non PSP Property is connected to the Water Supply System or Sewerage System (as the case may be) and each subsequent quarterly payment is payable on each anniversary of that date. The interest rate to be used to calculate the quarterly payment is the interpolated Commonwealth Government Securities - 10 year Fixed Coupon Bonds (expressed as a decimal) published on the Reserve Bank of Australia's website immediately prior to the date that the relevant Non PSP Property is connected to the Water Supply System or Sewerage System (as the case may be). If that interest rate is no longer published on the Reserve Bank of Australia's website or is no longer available, then the Tribunal or a person nominated by the Tribunal may determine the interest rate or a methodology for determining the interest rate;
 - or
 - (b) a single payment of the entire Non PSP Contribution Charge immediately prior to the connection of the Non PSP Property to the Water Supply System or Sewerage System (as the case may be).
- 2.6 Prior to a Non PSP Property Owner electing to pay the Non PSP Contribution Charge under either clause 2.5(a) or clause 2.5(b) of this schedule, the Council must provide that Non PSP Property Owner with information on:
- (a) the amount of the quarterly payment in clause 2.5(a) of this schedule, how that quarterly payment is calculated and the total interest payable over the 20 years; and
 - (b) the amount of the single payment in clause 2.5(b) of this schedule and how that single payment is calculated.
- 2.7 If a Non PSP Property Owner elects to make a quarterly payment under clause 2.5(a) of this schedule, the Council must:
- (a) maintain adequate and up to date records of each quarterly payment and the outstanding balance that must be paid by the Non PSP Property Owner to fully discharge its liability to pay the Non PSP Contribution Charge; and
 - (b) permit the Non PSP Property Owner to pay the outstanding balance of their Non PSP Contribution Charge at any time. The interest rate to be used to calculate the outstanding balance must be the same as the interest rate used to calculate the quarterly payment in clause 2.5(a) for that Non PSP Property Owner.

[Note: Properties which are part of a Water Financing Scheme or Sewerage Financing Scheme will fall within Determination No 4.1 of 1997 and not within this determination]

Schedule 2

PSP Properties

1. Application

This Schedule prescribes the methodology for determining the maximum prices that the Council may charge for PSP Properties.

2. PSP Properties

The methodology for determining a charge (**PSP Area Contribution Charge**) payable by a PSP Property Owner of a PSP Property within a Backlog Service Area is as follows:

- 2.1 A PSP Property Owner must pay an initial fixed charge up to a maximum of \$5,400, increased in accordance with clause 2.4 of this schedule (**Initial Fixed Charge**). The Initial Fixed Charge is payable in accordance with clause 2.6 of this schedule.
- 2.2 A PSP Property Owner must also pay an additional amount, for each PSP Property of that PSP Property Owner that is within a Backlog Service Area. That additional amount will be the Present Value of 67% of the Remaining Scheme Costs (measured in constant dollars) divided by the Present Value of the number of PSP Properties in the relevant Backlog Service Area, using a discount rate of 0.061 (real pre tax) or such other discount rate as advised by the Tribunal from time to time. That additional amount is payable in accordance with clause 2.6 of this schedule.

[Notes:

1. The PSP Area Contribution Charge comprises of 2 amounts – the Initial Fixed Charge in clause 2.1 and the additional amount determined under clause 2.2 of this schedule.
2. In addition to paying for the PSP Area Contribution Charge, a PSP Property Owner will also be required to pay for any sewer connection fees and charges and plumbing connection costs in order for its PSP Property to be connected to the Sewerage System.]

- 2.3 The PSP Area Contribution Charge must be calculated prior to the connection of the first PSP Property in that Backlog Service Area to the Sewerage System. The Council must submit the calculated PSP Area Contribution Charge to the Tribunal.
- 2.4 Pending the calculation by the Council of the additional amount in clause 2.2 of this schedule for a PSP Property within a Backlog Service Area, the Initial Fixed Charge will be indexed annually by Δ CPI for each year (or part of a year) until the Council has calculated that additional amount.
- 2.5 The PSP Area Contribution Charge will be indexed annually by Δ CPI for each year (or part of a year) that a PSP Property remains unconnected to the Sewerage System after the Sewerage System becomes available because of either of the following circumstances:
 - (a) the PSP Area Contribution Charge remains unpaid (in whole); or
 - (b) a PSP Property Owner has not entered into an agreement with the Council to pay for the PSP Area Contribution Charge in accordance with clause 2.6(a) of this schedule.

- 2.6 The Council must provide the following payment options to a PSP Property Owner for payment of the PSP Area Contribution Charge (in addition to any other payment options which the Council may wish to provide):
- (a) a quarterly payment, payable in arrears, over a maximum of 20 years. The first quarterly payment is payable 3 months after the date that the PSP Property is connected to the Sewerage System and each subsequent quarterly payment is payable on each anniversary of that date. The interest rate to be used to calculate the quarterly payment is the interpolated Commonwealth Government Securities - 10 year Fixed Coupon Bonds (expressed as a decimal) published on the Reserve Bank of Australia's website immediately prior to the date that the relevant PSP Property is connected to the Sewerage System. If that interest rate is no longer published on the Reserve Bank of Australia's website or is no longer available, then the Tribunal or a person nominated by the Tribunal may determine the interest rate or a methodology for determining the interest rate;

or

 - (b) a single payment of the entire PSP Area Contribution Charge immediately prior to the connection of the PSP Property to the Sewerage System.
- 2.7 Prior to a PSP Property Owner electing to pay the PSP Area Contribution Charge under either clause 2.6(a) or clause 2.6(b) of this schedule, the Council must provide that PSP Property Owner with information on:
- (a) the amount of the quarterly payment in clause 2.6(a) of this schedule, how that quarterly payment is calculated and the total interest payable over the 20 years; and
 - (b) the amount of the single payment in clause 2.6(b) of this schedule and how that single payment is calculated.
- 2.8 If a PSP Property Owner elects to make a quarterly payment under clause 2.6(a) of this schedule, the Council must:
- (a) maintain adequate and up to date records of each quarterly payment and the outstanding balance that must be paid by the PSP Property Owner to fully discharge its liability to pay the PSP Area Contribution Charge; and
 - (b) permit the PSP Property Owner to pay the outstanding balance of their PSP Area Contribution Charge at any time. The interest rate to be used to calculate the outstanding balance must be the same as the interest rate used to calculate the quarterly payment in clause 2.6(a) for that PSP Property Owner.

Schedule 3

Statement of reasons why the Tribunal has chosen to set a methodology for fixing a maximum price

Under s13A of the IPART Act the Tribunal may set maximum prices or may determine a methodology for setting maximum prices. In this determination, the Tribunal has employed a methodology for fixing the maximum prices that the Council may charge for the Monopoly Services.

The Tribunal is of the opinion that it is impractical to make a determination directly fixing the maximum price. Charges for Backlog Service are levied to recover infrastructure costs incurred in providing these services. A separate prescription of the maximum prices for the Monopoly Services would not allow sufficient timing flexibility where the works are expected to be completed between the Tribunal's major price determinations for the Council.

It would be impractical and inefficient for the Tribunal to perform the great number of actual calculations and updates required in calculating the relevant charges for the provision of Backlog Service in individual cases. Unworkable delays would occur if the Council were required to return to the Tribunal each time it decided to provide a Backlog Service to properties which are not serviced by an existing Water Supply System or the Sewerage System (as the case may be). By allowing the actual calculations on individual cases to be completed by Council in accordance with a prescribed methodology, delays will be minimised. The Tribunal will review the calculation of the charges from time to time.

Schedule 4

Definitions and Interpretation

1 DEFINITIONS

1.1 General definitions

Backlog Service means either:

- (a) the service of providing a Non PSP Property with a connection to the Water Supply System or the Sewerage System (as the case may be); or
- (b) the service of providing a PSP Property with a connection to the Sewerage System.

Backlog Service Area means an area determined by the Council within which the Council intends providing a Backlog Service.

Commencement Date means the Commencement Date defined in clause 2(2) of section 1 (**Background**).

Council means the Council defined in clause 1(2) of section 1 (**Background**).

GST means the Goods and Services Tax defined in *A New Tax System (Goods and Services Tax) Act, 1999*.

Initial Fixed Charge means the Initial Fixed Charge defined in clause 2.1 of schedule 2.

IPART Act means the *Independent Pricing and Regulatory Tribunal Act 1992*.

Monopoly Services means the Monopoly Services defined in clause 1(3) of section 1 (**Background**).

Non PSP Contribution Charge means the charge defined in clause 2 of schedule 1.

Non PSP Property means either:

- (a) a Property which is not serviced by an existing Water Supply System and not part of a Water Financing Scheme; or
- (b) a Property which is not a PSP Property, not serviced by an existing Sewerage System and not part of a Sewerage Financing Scheme.

Non PSP Property Owner means the owner of a Non PSP Property.

Present Value is derived from the following formula:

$$PV = X_n (1 + r)^{-n}$$

Where:

PV = present value;

X_n = value in year_n;

r = discount rate specified in clause 2.2 of schedule 2;

n = number of years.

Priority Sewerage Program means the NSW Government Program which provides a subsidy to the Council for each Property eligible to receive that subsidy.

PSP Area Contribution Charge means the charge defined in clause 2 of schedule 2.

PSP Property means a Property which is not serviced by an existing Sewerage System and to which the Priority Sewerage Program applies.

PSP Property Owner means the owner of a PSP Property.

Property means real property.

Remaining Scheme Costs means, in relation to a Backlog Service Area, the total capital costs of providing sewer services to all the PSP Properties within that Backlog Service Area, less:

- (a) any applicable NSW Government subsidies for that Backlog Service Area; and
- (b) the Initial Fixed Charge multiplied by the number of PSP Properties in that Backlog Service Area.

[Note: examples of the NSW Government subsidies are the NSW Government Country Towns Water Supply and Sewerage Program subsidy and the NSW Government Priority Sewerage Program subsidy]

Sewerage Financing Scheme means a scheme operated by the Council for a Sewerage Financing Scheme Area and contributed by owners within that Sewerage Financing Scheme Area to fund the cost of providing sewer services to the Properties of those owners.

Sewerage Financing Scheme Area means an area determined by the Council within which the Council intends providing sewer services.

Sewerage System means the sewerage system of the Council.

Tribunal means the Independent Pricing and Regulatory Tribunal of New South Wales established under the IPART Act.

Water Financing Scheme means a scheme operated by the Council for a Water Financing Scheme Area (either independently or in conjunction with the Sewerage Financing Scheme) and contributed by owners within that Water Financing Scheme Area to fund the cost of providing water services to the Properties of those owners.

Water Financing Scheme Area means an area determined by the Council within which the Council intends providing water services.

Water Supply System means the water supply system of the Council.

1.2 Consumer Price Index

- (a) **CPI** means the consumer price index all groups index number for Sydney, published by the Australian Bureau of Statistics, or if the Australian Bureau of Statistics does not or ceases to publish the index, then CPI will mean an index determined by the Tribunal

$$(b) \quad \Delta CPI = \left(\frac{CPI_{Jun, year_n} + CPI_{Sep, year_n} + CPI_{Dec, year_n} + CPI_{Mar, year_{n+1}}}{CPI_{Jun, year_{n-1}} + CPI_{Sep, year_{n-1}} + CPI_{Dec, year_{n-1}} + CPI_{Mar, year_n}} \right) - 1$$

- (c) The subtext (for example $CPI_{Jun, year_n}$) when used in relation to paragraph (b) above means the CPI for the June quarter and year in which the calculation was made and (for example $CPI_{Jun, year_{n-1}}$) means the CPI for the June quarter in the year immediately preceding June, year n.

2. Interpretation

2.1 General provisions

In this determination:

- (a) headings are for convenience only and do not affect the interpretation of this determination;
- (b) a reference to a schedule, annexure, clause or table is a reference to a schedule, annexure, clause or table to this determination;
- (c) words importing the singular include the plural and vice versa;
- (d) a reference to a law or statute includes all amendments or replacements of that law or statute.

2.2 Explanatory notes, examples and clarification note

- (a) Explanatory notes and examples do not form part of this determination, but in the case of uncertainty may be relied on for interpretation purposes.
- (b) The Tribunal may publish a clarification notice in the NSW Government Gazette to correct any manifest error in or to clarify any part of this determination as if that clarification note formed part of this determination.

2.3 Prices exclusive of GST

Prices or charges specified in this determination do not include GST.

Report No 1, 2006

**Section 11(1)
Independent Pricing and Regulatory Tribunal Act 1992**

Gosford City Council

**Independent Pricing and Regulatory Tribunal
of New South Wales**

Reference No: 05/522

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1 INTRODUCTION

The Independent Pricing and Regulatory Tribunal of NSW (the Tribunal) is responsible for setting maximum prices for declared backlog sewerage monopoly services charged by Sydney Water Corporation (SWC), Hunter Water Corporation (HWC), Gosford City Council (Gosford Council) and Wyong Shire Council (Wyong Council).

In July 1997, the Tribunal determined a methodology for fixing backlog sewerage capital contributions under Section 13A of the *Independent Pricing and Regulatory Tribunal Act (1992)* (the IPART Act).

On 14 March 2005, the Minister for Energy and Utilities wrote to the Tribunal outlining likely additional costs for owners of property in backlog sewerage areas in the Gosford local government area due, in part, to recent changes to the Country Towns Water Supply and Sewerage (CTWSS) Program.

The Minister requested that the Tribunal re-open its 1997 determination of backlog sewerage services in order to examine spreading the additional backlog sewerage costs associated with the provision of sewerage services over the Gosford Council customer base generally.

While the 1997 determination has no formal expiry date, the Tribunal recognises that it has been eight years since it made its original determination and considers it appropriate to review the pricing of backlog sewerage services for Gosford in light of current circumstances. This review has been undertaken pursuant to Section 11 of the IPART Act.

This report explains the Tribunal's decisions and sets out its determination.

1.1 The price determination process

As part of its public consultation process, the Tribunal released an Issues Paper in August 2005 outlining key issues relating to the pricing of backlog sewerage services in certain areas of the Gosford local government area. The areas of particular interest to the Tribunal and the subject of this review are properties which come within the scope of the Government's Priority Sewerage Program (PSP). This program identifies and classifies areas where the provision of sewerage would deliver substantial environmental and public health benefits to both local residents and the wider community.

While there are a number of remote communities in and around Gosford to which the provision of a sewerage service is planned, the most advanced of these plans are for the Hawkesbury River villages of Mooney Mooney and Cheero Point. Both Mooney Mooney and Cheero Point have been identified as high priority backlog sewerage areas under the Government's Priority Sewerage Program.

The Tribunal's Issues Paper proposed two possible options for the pricing of the provision of sewerage services to Mooney Mooney and Cheero Point and invited submissions from Gosford City Council, as the provider of sewerage services, and other interested parties.

A submission from Gosford City Council was received on Thursday 15 September 2005 and submissions from various interested stakeholders were received by Friday 30 September 2005. A list of all submissions received is provided in Appendix 4.

On Friday 14 October 2005, the Tribunal held a Public Hearing in Gosford to discuss issues raised in the Issues Paper, in Council's submission, and the submissions of other key stakeholders. A list of presenters at the Public Hearing is provided in Appendix 5.

1.2 Overview of determination

The Tribunal has considered a number of options for pricing the provision of sewerage services to areas coming within the scope of the Government's Priority Sewerage Program in the Gosford local government area. In considering the merits of each of these options, the Tribunal has had regard to the following principles:

- an appropriate sharing of the cost burden for the provision of sewerage services to Priority Sewerage Program backlog areas in a manner which recognises the benefits accruing to those directly serviced by the scheme while also recognising the substantial public health and environmental benefits that arise from backlog sewerage programs
- the importance of ensuring that property owners of backlog areas do not request unnecessarily expensive methods of meeting public health and environmental requirements
- the importance of developing a system of cost sharing that has regard to the capacity of property owners in backlog areas to pay, and
- the need to ensure that Gosford Council has sufficient revenue to provide sewerage services to backlog sewerage areas that come within the scope of the NSW Government's Priority Sewerage Program.

The Tribunal recognises that the provision of reticulated sewerage services to areas coming within the scope of the Government's Priority Sewerage Program will confer environmental and public health benefits beyond the immediate property owners who will be served by the sewerage schemes. Indeed, the Priority Sewerage Program was introduced, and areas identified for inclusion within the program, on the basis of the wider public health and environmental benefits that are expected to accrue from the provision of services.

The principles outlined suggest that the costs of backlog sewerage programs should be shared between property owners of backlog areas and the broader community. However, it is important to decide what the broader community means in this context.

Some environmental benefits (for example, improved in-stream water quality) will be enjoyed by all who make use of the Hawkesbury River for recreational or other purposes. These benefits are enjoyed by many people in the Gosford local government area and the NSW community in general. By contrast, some public health benefits (for example, more effective disposal and treatment) are more likely to be confined to local communities. These arguments point to the cost of backlog sewerage projects being shared between residents of backlog areas, residents of the local government area in which the backlog project is located and NSW taxpayers generally.

The Tribunal has made its determination based on cost sharing between the parties mentioned. The Tribunal considers that its determination will provide an equitable outcome for backlog projects within the Gosford area generally. It must be recognised, however, that the application of the cost-sharing principles to Mooney Mooney and Cheero Point lead to some difficulties. Because these communities are geographically remote from most population centres within Gosford there is likely to be less sharing of benefits with the

broader Gosford community than occurs for the typical backlog project. In the absence of cost sharing the residents of these communities would be required to pay high charges for a reticulated sewerage system. This is especially so given the NSW Government's decision to reduce subsidies under the Country Town's Water Supply and Sewerage Program. The Tribunal has therefore concluded that the cost-sharing arrangement that it has developed should be applied to Mooney Mooney and Cheero Point because this provides a more equitable result overall.

For those Gosford backlog communities that come within the scope of the NSW Government's Priority Sewerage Program, the main features of the Tribunal's determination are as follows:

- The Tribunal has decided that the net cost, after subsidies from the NSW Government are taken into account, of sewerage provision in Priority Sewerage Program areas will be shared between property owners whose properties will be provided with a sewerage service and the owners of seweraged properties in the Gosford local government area generally.
- The Tribunal has determined that each property in a Priority Sewerage Program backlog sewerage scheme area will attract a capital contribution charge of the first \$5,400 plus a share of 67 per cent of any remaining capital cost.
- The remaining 33 per cent of the capital cost above \$5,400 per property is to be borne by owners of seweraged properties in Gosford generally. This portion of the capital cost will be recovered by way of an increase in the annual sewerage service charge determined from time to time by the Tribunal. In the case of the provision of sewerage services to Mooney Mooney and Cheero Point this is estimated to increase annual sewerage service charges by \$0.60 per year per sewerage service customer.
- Operating costs for all Priority Sewerage Program backlog sewerage areas will also be recovered by way of an increase in the annual sewerage service charge paid by all Gosford property owners connected to a reticulated sewerage system.
- The backlog capital contribution payable by property owners in backlog sewerage areas may be paid up-front or by instalments over a period of up to 20 years. On any amount outstanding as a result of time payment Gosford City Council is entitled to charge interest.

On current estimates, the determination will mean that property owners in Mooney Mooney and Cheero Point backlog sewerage areas will pay a total charge of approximately \$8,600 per property. This level of contribution is consistent with what the residents of Mooney Mooney and Cheero Point would have paid prior to the reduction in the CTWSS Program subsidy but after allowance for increases in the estimated capital cost of the sewerage scheme.

Priority Sewerage Scheme areas within the Gosford local government area currently attract subsidies under the CTWSS program and the Government's Priority Sewerage Program. The Tribunal has concerns about the order in which these subsidies are currently applied as the order affects the size of the contribution required from local property owners

When Gosford Council calculates the backlog sewerage capital contribution charge for PSP backlog sewerage areas, it initially reduces the total capital cost of the scheme by the amount of the Priority Sewerage Program subsidy and then reduces the capital cost by a further 50 per cent (the Country Towns Water Supply and Sewerage subsidy). After careful

consideration, the Tribunal has formed the view that the order of the application of subsidies should be reversed. This will ensure that property owners in backlog sewerage areas will benefit from the full subsidy available under the Priority Sewerage Program.

The Tribunal recommends that when calculating the size of the subsidy payable under the Country Towns Water Supply and Sewerage Program, the NSW Government use the total capital cost of the scheme before the Priority Sewerage Program subsidy is applied.

While this review was prompted by a Government decision to reduce the subsidy available to Gosford City Council under the County Towns Water Supply and Sewerage Program, it needs to be recognised that funds that will be made available under this Program, coupled with those to be made available by Government under the Priority Sewerage Program, will mean that more than 50 per cent of the total estimated capital cost of the provision of sewerage facilities to Priority Sewerage Program areas in Gosford will be met by the taxpayers of NSW as a whole.

For Gosford backlog sewerage areas, which are not part of the Priority Sewerage Program, the backlog sewerage capital contribution charge will be set in accordance with the methodology determined by the Tribunal for setting developer charges (Determination No. 9, 2000). This is consistent with existing practice.

This determination replaces Determination 4.2 of 1997. The determination has been divided into two parts. The first part deals with properties falling outside the scope of the Government's Priority Sewerage Program. The second part deals with properties coming within the scope of the Government's Priority Sewerage Program. It is only the second part of the determination that has been the subject of this review.

Determination 4.1 of 1997 will continue to apply for Sydney Water Corporation, Hunter Water Corporation, Gosford City Council and Wyong Shire Council.

1.3 Structure of this report

This report explains the Tribunal's determination, including how and why it reached its decisions and what those decisions mean for Gosford City Council, its customers and other stakeholders:

- Chapter 2 provides background to the review and outlines the context in which the Tribunal's determination of charges for PSP backlog sewerage services was made. It outlines the nature of PSP backlog sewerage services, provides a short history of backlog sewerage in Gosford and summarises the Tribunal's previous determination.
- Chapter 3 summarises the key issues raised by Gosford Council and other key stakeholders in their submissions and provides an overview of the pricing of backlog sewerage services across NSW.
- Chapter 4 presents the Tribunal's findings on issues raised by stakeholders, outlines several possible options for the pricing of backlog sewerage services to PSP areas in Gosford and discusses issues considered by the Tribunal when making its decisions.
- Chapter 5 analyses the Tribunal's preferred option in terms of the provisions of Sections 14A and 15 of the IPART Act (eg, consumer protection, economic efficiency, financial viability, economic parameters and implications for the environment).

2 BACKGROUND AND CONTEXT FOR THE REVIEW

This chapter provides background to the review and outlines the context in which the Tribunal's determination of prices for backlog sewerage services in Priority Sewerage Program areas in Gosford City Council's operating area has been made.

Section 2.1 outlines the nature of backlog sewerage services, provides a short history of the pricing of backlog sewerage services in the Gosford local government area and summarises the Tribunal's previous determination of pricing arrangements for backlog sewerage services.

Section 2.2 discusses the broader context in which the Tribunal's decisions have been made. It outlines a request from the former Minister for Energy and Utilities that the Tribunal re-open its 1997 determination of pricing arrangements for backlog sewerage services and also discusses recent changes that have been made to the Government's Country Towns Water Supply and Sewerage Program.

2.1 Background

A backlog sewerage service is the provision of an environmentally acceptable wastewater management service in urban and semi-urban areas by a water authority where that service is not currently provided.

The provision of sewerage in urban and semi-urban areas can be important for the protection of the environment and the maintenance of public health. Benefits from these projects are often shared by all, not just those whose properties are served.

In many cases, properties in backlog sewerage areas are already connected to a reticulated water system and have their own on-site wastewater management systems. In the past, on-site systems represented an acceptable waste management option. However, increasing urban density and a greater appreciation of environmental impacts means that better waste management measures are sometimes called for.

A key task for the Tribunal during this review was to determine how prices for backlog sewerage services in PSP areas should be set to best balance the competing objectives of consumer protection, economic efficiency, financial viability and environmental protection.

2.1.1 History of pricing of backlog sewerage services in Gosford

In the mid-1970s, Gosford City Council established a regional sewerage scheme which continued until the mid 1990s. This scheme applied to a defined area in and around Gosford to which the eventual provision of water and sewerage services was planned at the time.

For the 20-year period between the mid 1970s and mid 1990s, property owners located within this defined sewerage scheme area were required to pay 'sewerage loan charges', regardless of whether or not they were connected to the Gosford sewerage system, on the assumption that they would eventually be connected to the system. Some property owners within the Gosford sewerage financing scheme area paid sewerage loan charges for up to 20 years before a sewerage service became available to them.

Initially, it was Gosford Council's intention that only properties inside the area covered by this scheme would be provided with sewerage services. While the Council's designated sewerage scheme area covered the majority of the developed area of Gosford, there were some remote communities on the periphery, which were not included. These included; Fishermans Parade, Mooney Mooney, Cheero Point, Little Wobby, Bar Point, Patonga Creek, and areas within Bensville, Empire Bay and South Kincumber.

In the mid 1970s, these communities were isolated from the major metropolitan centres of the Central Coast and for this reason it was planned at the time that these areas would not be connected to the reticulated water or sewerage systems.

Growth on the Central Coast and more stringent public health and environmental guidelines for on-site wastewater systems during the late 1990s resulted in building approval difficulties in some of these outlying areas (eg, Fishermans Parade) and calls for the provision of reticulated sewerage services to these communities.

To address this issue, the Tribunal considered charging arrangements for backlog sewerage services in 1997. The Tribunal's 1997 determination is discussed in further detail below.

2.1.2 Summary of 1997 determination of backlog sewerage services

In 1997, the Tribunal outlined principles for the pricing of backlog sewerage services. In making its 1997 determination for backlog sewerage services, the Tribunal considered each of the following:

- the pricing principles for water and sewerage services adopted by the Council of Australian Governments (CoAG)
- the objective of full cost recovery
- the efficient costs of service provision
- the potential for private sector involvement in the provision of backlog sewerage services
- the "polluter versus beneficiary pays" principle, and
- the idea that backlog sewerage services contain "public good" elements as they offer benefits to the wider community.

The 1997 determination consists of two parts, Determination 4.1 and Determination 4.2.

Determination 4.1

The first part of the Tribunal's 1997 determination of backlog sewerage capital contribution charges (Determination 4.1) set a methodology under Section 13A of the IPART Act for fixing a backlog sewerage capital contribution charge for certain classes of properties within the operating areas of Sydney Water Corporation, Hunter Water Corporation, Gosford City Council and Wyong Shire Council.

Determination 4.1 specifies a methodology and formula for the calculation of a backlog sewerage capital contribution charge (BSCCC). The formula is:

$$BSCCC = \frac{25\% \text{ of actual capital cost of sewerage infrastructure attributed to backlog properties}}{\text{Total number of existing properties in the backlog area}}$$

Determination 4.1 specifies that the backlog sewerage capital contribution charge for any property, as calculated by the formula, is to be capped at \$3,000 in nominal terms until otherwise determined by the Tribunal. In addition, the capital costs used in the calculation are to be net of funding from special environmental levies. If the capital works are undertaken to provide sewerage services to existing backlog properties, renewal of existing infrastructure or new development lots in combination, the capital costs are to be apportioned between each activity on the basis of estimates of the number of properties benefiting.

The methodology for calculating the backlog sewerage capital contribution charge, and the pricing principles for backlog sewerage outlined in Determination 4.1 apply to:

- All unsewered areas identified by Sydney Water Corporation, and Hunter Water Corporation except areas specified in the Hunter Sewerage Project Priority Area 1.
- Gosford City Council’s operating area excluding areas where property owners have not contributed to a specific water and/or sewerage financing scheme.
- Wyong Shire Council’s operating area.

Determination 4.2

Determination 4.2 covers specific communities in Gosford Council’s operating area not captured under Determination 4.1. Determination 4.2 sets out a methodology for calculating maximum prices for the provision of water and/or sewerage services to existing properties in and around Gosford where property owners have not previously contributed to finance a specific water and/or sewerage scheme.

Determination 4.2 specifies a methodology to be used by Gosford City Council to calculate the maximum water and/or sewerage contribution charge for the types of properties covered by it. This methodology is the same as the methodology determined by the Tribunal for developer charges.

The formula used to calculate the backlog sewerage capital contribution charge is as follows:

$$BSCCC^1 = \frac{NPV_k - NPV(r-c)}{PVI}$$

Where:

- NPV_k = NPV of the costs of the assets used to service the Backlog area
- NPV_r = NPV of the future periodic revenues for the service in question
- NPV_c = NPV of the future annual operating costs for the service in question
- PVI = The number of Lots in the Backlog area expressed in Present Value terms

¹ The backlog sewerage capital contribution charge for a scheme is calculated upon completion of the works and the charge applies to each backlog property that connects to it.

The water and/or sewerage contribution charge is to be calculated on completion of the sewerage infrastructure and requires Gosford City Council to submit the calculated charge to the Tribunal for review.

This determination has applied since July 1997 and has not been reviewed since. The Tribunal is aware that the circumstances of some communities and subsidies payable by the NSW Government have changed sufficiently to warrant a review of the existing pricing arrangements.

2.2 Context

The new pricing arrangements for the provision of backlog sewerage services to Priority Sewerage Program areas will apply from 1 July 2006 and any costs which are to be borne by the wider Gosford customer base will be considered as part of the Tribunal's review of periodic water, wastewater and stormwater prices for Gosford City Council to also apply from 1 July 2006.

2.2.1 Reduction in Country Towns Water Supply and Sewerage Program subsidy

The provision of water supply and sewerage services to country towns in NSW is the responsibility of local government under the *Local Government Act (1993)*. The NSW State Government provides technical, management and financial support to local government through the Country Towns Water Supply and Sewerage (CTWSS) Program administered by the Department of Energy and Utilities (DEUS).

Under the Program, local Councils and DEUS effectively become partners to deliver appropriate, affordable and well-managed water supply and sewerage services in urban areas of country New South Wales. These services are necessary to meet community needs, protect public health and achieve sustainable environmental outcomes whilst making best use of regional resources.

From time to time changes are made to the CTWSS Program to reflect changes in the emphasis of Government policy and the financial capacity of Government relative to the demands on the CTWSS Program.

The overall objectives of the CTWSS Program remain to help councils achieve a broad range of objectives such as:

- **Planning and management.** Achieve and maintain best practice in community consultation, strategic planning, financial planning, environmental management, demand management and total asset management.
- **Operation and maintenance.** Achieve and maintain best practice in operation and maintenance of water services, and in the management of emergencies, to provide agreed levels of customer service and environmental protection.
- **Provision of capital works.** Provide physical infrastructure to cost-effectively meet community needs in urban areas in a timely manner whilst protecting environmental values and making best use of regional resources.

Recently, the NSW Government reviewed the financial arrangements for the Country Towns Water Supply and Sewerage Program. For some regional communities across NSW (such as Mooney Mooney and Cheero Point in Gosford Council's area of operations), this meant that the subsidy payable under this scheme was reduced from approximately two thirds of the estimated capital cost to one-half.

In the case of Mooney Mooney and Cheero Point Gosford Council estimates that the reduction in the Country Towns subsidy is likely to translate into an increase in the cost to be borne by Council of approximately \$4,200 per property². This, in turn, means that the required backlog sewerage capital contribution (calculated in accordance with the Tribunal's methodology determined in 1997) payable by the property owners of the communities of Mooney Mooney and Cheero Point would need to increase from about \$8,600 per property to approximately \$12,800 per property.

Council has not yet obtained approval for funding under the Country Towns Water Supply and Sewerage Program for the provision of sewerage services to any other backlog communities. Without the benefit of detailed estimates of the costs of other PSP backlog sewerage schemes in the Gosford local government area, it is not possible to forecast the effect of the subsidy reduction on these areas. Cost increases of the order of \$3,000 to \$6,000 per property could be expected based on a Council assumption of \$4,200 per property.

2.2.2 Request by Minister to reopen 1997 determination

On 14 March 2005, the Minister for Energy and Utilities wrote to the Tribunal outlining likely additional costs for backlog sewerage customers due, in part, to recent changes to the Country Towns Water Supply and Sewerage (CTWSS) Program.

The Minister requested that the Tribunal re-open its 1997 determination of backlog sewerage services in order to examine spreading the additional costs associated with the provision of sewerage services to backlog areas over the Gosford Council customer base more generally.

The Minister's letter dated 14 March 2005 is included in Appendix 3.

² Gosford City Council submission to IPART ,15 September 2005, p 10.

3 ISSUES RAISED IN SUBMISSIONS

The Tribunal released an Issues Paper on the pricing of backlog sewerage services provided by Gosford City Council in August 2005. This Issues Paper sought submissions from Gosford City Council and other interested stakeholders by Friday 16 September 2005 and Friday 30 September 2005 respectively.

Parties who made submissions are listed in Appendix 4.

The following chapter outlines key issues raised in submissions. Section 3.1 discusses issues raised by Gosford City Council and presents Council's views on the options presented by the Tribunal in its Issues Paper.

Section 3.2 summarises key issues raised by the NSW Government, property owners of Mooney Mooney and Cheero Point, public interest groups and environment groups.

3.1 Gosford City Council

The Tribunal's Issues Paper outlined two possible options for the pricing of backlog sewerage services by Gosford Council. These were, maintaining existing charging arrangements (the status quo option), and the development of a special backlog sewerage charge for the property owners of Mooney Mooney and Cheero Point.

In its submission to the Tribunal, Gosford Council said that it did not support the provision of a special backlog sewerage charge for Mooney Mooney and Cheero Point customers as this would:

- create cross-subsidies in charging arrangements in contravention of the Best Practice Management Guidelines of the Department of Energy, Utilities and Sustainability
- result in inequities for communities which have previously paid large capital contributions under Determination 4.2 (eg, Fishermans Parade)
- be inequitable for property owners within the current regional sewerage scheme,
- create an undesirable precedent for other unserved areas, and
- contradict Council's policy of full cost recovery.

The key issues raised by Gosford Council in its submission to the Tribunal are discussed in further detail below.

3.1.1 Creation of cross subsidies within Gosford/equity issues

Council pointed out that some property owners of Fishermans Parade at Daley's Point are still paying off substantial water and sewerage servicing charges imposed in accordance with the Tribunal's Determination 4.2 of 1997. Council argued that in view of this it would be inequitable to provide concessions to Mooney Mooney and Cheero Point and other similar backlog sewerage areas in the form of a reduced capital contribution.

In addition, Council suggested that it would be inappropriate to ask property owners who have contributed to their own sewerage system (by way of the Regional Sewerage Scheme) to subsidise all or part of the costs of customers who were not included in the Regional Sewerage Scheme.

3.1.2 Future eligibility for CTWSS funding and ability to pay dividends

Gosford Council stated that it is required to meet Best Practice Management of Water Supply and Sewerage Guidelines developed by the Department of Energy, Utilities and Sustainability. A key requirement of these guidelines is that Council eliminate cross-subsidies in its charging arrangements.

Council asserts that if the Tribunal were to set a reduced charge for backlog sewerage areas, such as Mooney Mooney and Cheero Point, this would necessarily require the creation of a cross subsidy between property owners in backlog sewerage areas and the remainder of the Gosford Council customer base. Council is concerned that the creation of such cross subsidies may prevent it from being eligible for funding under the Country Towns Water Supply and Sewerage Program or prevent it from being eligible to pay a dividend in the future.

3.1.3 Council policy on full cost recovery

Council also commented that it has followed a policy of 'no cross-subsidy' since the 1980s. Council contends that should property owners in backlog sewerage areas (including Mooney Mooney and Cheero Point) be given special consideration in the form of a reduced backlog sewerage capital contribution charge, it would be necessary for some project costs to be subsidised by the remainder of the Gosford customer base and that this would contravene Council's policy on full cost recovery.

Council representatives also mentioned at the public hearing that the Council of Australian Governments (CoAG) water pricing principles require the elimination of price structures that promote cross-subsidies.

3.2 Other stakeholders

Submissions were received from a range of stakeholder groups including resident action, community advocacy and environment groups. Key issues raised in stakeholder submissions include:

- environmental and health benefits associated with connection to the sewerage system
- equity considerations
- impact on low income customers
- expansion of options to include all Priority Sewerage Program communities.

Each of these is discussed in further detail below.

3.2.1 Environmental and health benefits

A number of stakeholders suggested that there are substantial environmental and health benefits that will arise from the provision of sewerage services to backlog communities within the Gosford area of operations.

Both DEUS and the Public Interest Advocacy Centre (PIAC) consider that given that the former Environment Protection Authority classified the Hawkesbury Village communities as a high priority area for the provision of sewerage services (ie, a Category A backlog area), the provision of sewerage services to these areas is likely to also substantially benefit existing property owners in the wider Gosford community and that this would justify some sharing of costs.

3.2.2 Equity considerations

A further issue raised in submissions relates to equity between the existing property owners of Gosford City Council, the property owners of Fishermans Parade and property owners in PSP backlog communities. For example, the Community Environment Network (CEN) suggested that equity for all property owners in the Gosford local government area is an important consideration, particularly given that owners of properties already sewered have paid (or are currently paying) for their own sewerage systems.

DEUS raised concerns that under Determination 4.1, the property owners of PSP areas in Sydney, Hunter and Wyong are required to make a maximum capital contribution of \$3,000 upon connection to their sewerage systems while under Determination 4.2, owners of properties in Gosford PSP areas, such as Mooney Mooney and Cheero Point, can be required to make much larger capital contributions.

In a submission to the Tribunal, the property owners of Mooney Mooney and Cheero Point noted that the contribution differential between the southern (served by Sydney Water) and northern (served by Gosford City Council) banks of the Hawkesbury River³ is particularly inequitable and suggested that the process used to apportion backlog costs should be common across all of NSW.

PIAC noted that it is mindful of the equity issues associated with asking property owners who have paid sewerage capital contribution charges for a number of years for their own services to contribute to reducing the costs to be paid by other property owners. However, it suggested that the Tribunal has been charged with weighing factors other than strict economic efficiency (such as environmental and social equity issues) and that these factors should be taken into consideration when setting prices for backlog sewerage services.

3.2.3 Impact on low income customers

A number of stakeholders raised concerns about the potential impacts associated with large capital contributions, particularly on low-income property owners.

CEN suggested that the Tribunal should consider the impact on low-income households of requirements to pay large lump sum contributions for sewerage provision when setting prices for backlog sewerage services. It recommended that a "part subsidy" at least should

³ In effect, the variation in capital contribution required under Determination 4.1 and 4.2.

be provided to households, but that the subsidy should have a minimal impact on existing ratepayers in the wider Gosford community.

PIAC noted in its submission that its primary concern in relation to the Tribunal's review is with the affordability of sewerage services. PIAC note that this is a particular issue given the relative disadvantage of many people living in Gosford Council's area of operations. In addition, PIAC commented that any option which allocates backlog costs across a wider population is preferable as a smaller, more universal increase in sewerage service charges for existing Gosford customers could be more easily borne by property owners than large charges on backlog sewerage property owners.

3.2.4 Expansion of options to include all PSP communities

The Department of Energy, Utilities and Sustainability (DEUS) suggested in its submission that the Tribunal's preferred option for the pricing of backlog sewerage services for Mooney Mooney and Cheero Point property owners should also be expanded to include all of the communities that are covered by the Government's Priority Sewerage Program (PSP). These communities include:

- Bar Point
- Bensville and South Kincumber
- Little Wobby Beach
- Patonga Creek.

DEUS mentioned that the substantial environmental and public health benefits which would arise through the provision of sewerage services to Mooney Mooney and Cheero Point would also arise for all of the Priority Sewerage Program communities in Gosford and that each of these communities should therefore be treated in the same manner.

3.3 Pricing of backlog sewerage services across NSW

In a presentation to the Tribunal at the Public Hearing held on 14 October 2005, the representative of the Department of Energy, Utilities and Sustainability noted that, apart from Gosford City Council, there are approximately 17 Local Water Utilities (LWUs) with a population of more than 30,000 in NSW. In addition, the Department's representative mentioned that each of these had already made the decision to spread the cost of serving backlog sewerage areas across the broader community and that none of these LWUs have set higher capital contribution charges or higher annual charges for residential backlog areas.

While it is true that when compared to Sydney Water (with a population of approximately 4 million), Gosford Council (with a population of approximately 160,000) is significantly smaller, the DEUS representative mentioned that when compared with LWUs in NSW Gosford Council is considered very large.

With this in mind, the DEUS representative suggested that the impact on individual property owners of spreading costs across the entire customer base is likely to be significantly lower in Gosford local government area than in many other localities in NSW.

Moreover, the DEUS representative explained that of the 101 Local Water Utilities which currently provide sewerage services across country NSW, only 14 small LWUs have separate annual residential sewerage charges for constituent towns (ie, backlog sewerage towns) which are higher than the charges paid by the broader community. According to DEUS, these towns have very small populations, generally in the range of 5,000 or so with the largest being Moree with a population of 10,000.

4 TRIBUNAL'S FINDINGS AND OPTIONS FOR PRICING OF BACKLOG SEWERAGE SERVICES IN GOSFORD

This chapter documents the Tribunal's findings in relation to the arguments advanced by stakeholders and is structured as follows:

- Section 4.1 outlines the Tribunal's findings in relation to each of the issues raised by stakeholders in submissions.
- Section 4.2 discusses the approach used by the Tribunal when assessing alternative options for the pricing of backlog sewerage services to PSP areas in Gosford.
- Section 4.3 provides detail on the various options which were considered by the Tribunal.
- Section 4.4 outlines key issues considered by the Tribunal when deciding on its preferred option.

4.1 Tribunal's Findings

The Tribunal has carefully considered the positions and arguments put before it by Gosford City Council and other stakeholders. The Tribunal's views on each of the issues raised in submissions are outlined below.

In summary, the Tribunal finds that the net cost, after Government subsidies have been taken into account, of sewerage provision to areas designated as high priority under the Government's Priority Sewerage Program should be shared between property owners in those areas and owners of sewered properties in the wider Gosford local government area. This principle of cost sharing should apply to Mooney Mooney and Cheero Point as designated high priority areas under the Government's Priority Sewerage Program.

4.1.1 Environmental and Health Benefits

The Tribunal recognises that the provision of reticulated sewerage services to areas coming within the scope of the Government's Priority Sewerage Program will confer some environmental and public health benefits beyond the immediate property owners who will be served by the sewerage schemes.

Given these circumstances, the Tribunal believes that a case has been made for the costs associated with the provision of reticulated sewerage facilities to these areas to be shared between property owners in the areas, the wider Gosford community and NSW taxpayers generally.

The Tribunal also finds that the spreading of costs beyond the immediate beneficiaries of a sewerage scheme does not constitute the creation of an undesirable cross subsidy. Where there are third party benefits accruing from a sewerage scheme, it is appropriate that those third parties contribute to the cost in a manner consistent with the value of the benefits received. The COAG endorsed Strategic Water Reform Framework does not place a

prohibition on cross subsidies but rather deems their removal desirable where they are “not consistent with efficient and effective service, use and provision”.⁴

Where there are third party benefits from the provision of a work such as a sewerage scheme it can be efficient for the value of the benefits to be paid by the third parties to ensure the services are provided. The alternative is that there will be under investment in the provision of services and the benefits will not be fully realised.

The Tribunal also notes that it is common practice in other parts of NSW for some or all of the costs of the provision of sewerage services to backlog areas to be spread across the customer base of the water utility concerned. Indeed, such an approach is not inconsistent with the 'postage stamp' or common charging system that the Tribunal has in place for other water, sewerage and stormwater services it regulates.

4.1.2 Eligibility for CTWSS funding and the ability to pay dividends

The issue of the manner in which Gosford City Council is required to comply with the DEUS Best Practice Guidelines was addressed by the representative of DEUS at the public hearing when he said:

... in developing those guidelines the Department was cognisant that both Gosford and Wyong [Councils] are affected by pricing determinations by the Tribunal in regard to annual charges and their developer charges, so there is a particular provision inserted in page 5 of the guidelines in order to provide a satisfactory regulatory framework....

Page 5 of the Guidelines provides that

"... as Gosford and Wyong Councils' pricing and developer charges are regulated by IPART, these councils need only demonstrate compliance with the liquid trade waste approvals component" of the pricing component of the Guidelines.⁵

In view of the information available to it, the Tribunal does not believe cost sharing in the manner proposed by the Tribunal will prevent Council from meeting its obligations under the DEUS Best Practice Management of Water Supply and Sewerage Guidelines.

4.1.3 Equity Considerations and Low Income Customers

The Tribunal is of the view that a form of cost sharing between PSP backlog sewerage property owners and the wider Gosford community can be developed that is fair to all parties concerned, including those on low incomes.

As far as the broader issue raised by some stakeholders of the apportioning of all backlog costs across NSW is concerned, the Tribunal's mandate covers the determination of prices for clearly specified water authorities. For those water authorities coming within the scope of the Tribunal's regulatory purview, the Tribunal is only able to determine water, sewerage and stormwater prices within the operating boundary of each agency concerned. There is no scope for the Tribunal to set prices beyond the operating boundaries of the regulated agency.

⁴ Council of Australian Government's Water Resource Framework, Attachment A, Paragraph 3 (a) (i), 25 February 1994.

⁵ Department of Energy, Utilities and Sustainability, *Best Practice Management Water Supply and Sewerage Guidelines*, p 5, May 2004.

Moreover, it could be argued that consideration of equity across regions is properly a matter for Government. It could be further argued that the NSW Government has considered and arrived at a fair apportionment of costs through such subsidy schemes as the Country Towns Water Supply and Sewerage Program and the Priority Sewerage Program. Funding to be made available under these programs will mean that more than 50 per cent of the estimated cost of the provision of sewerage facilities in Mooney Mooney and Cheero Point will be met by the taxpayers of NSW as a whole.

4.1.4 Expansion of options to include all PSP communities

The Tribunal was persuaded by the view that any capital contribution methodology it develops should be applied to all designated Priority Sewerage Program areas in Gosford City Council's operating area. It has therefore decided to apply its preferred pricing methodology to all PSP communities in Gosford Council's area of operations.

The remaining Priority Sewerage Program communities in the Gosford local government area include:

- Bar Point
- Bensville, Empire Bay, South Kincumber
- Little Wobby Beach
- Patonga Creek.

However, there is a lack of reliable cost estimates for all Priority Sewerage Program areas in the Gosford local government area. The Tribunal has therefore elected to use the areas of Mooney Mooney and Cheero Point as something of a case study.

4.2 Pricing Options

In its submission to the Tribunal, Gosford Council outlined the implications of two options for the pricing of backlog sewerage services. These included:

- maintaining the status quo, ie, continuing to apply the Tribunal's current determination and reflecting the changes to the CTWSS program funding, or
- determining a special capital contribution charge for property owners of Mooney Mooney and Cheero Point.

Council advise that under the status quo option using the Tribunal's existing methodology and the reduced CTWSS program subsidy, property owners of Mooney Mooney and Cheero Point would be required to pay approximately \$12,800 per property upon connection to the sewerage system.

Council advised that if the Tribunal were to spread costs associated with the reduction in the Country Towns Water Supply and Sewerage Program across the wider Gosford Council customer base, the required capital contribution for backlog property owners of Mooney Mooney and Cheero Point would be reduced to \$8,600 per property. Under this option, Council suggest that the annual sewerage service charge for all property owners would need to increase by a once off payment of approximately \$15.90 per property (or \$1.38 per property per year over 20 years).

In assessing alternative options, the Tribunal has had regard to the following principles:

- An appropriate sharing of the cost burden for the provision of sewerage services to Priority Sewerage Program backlog areas in a manner which recognises the benefits accruing to those directly serviced by the scheme while also recognising the substantial public health and environmental benefits that arise from backlog sewerage programs.
- The importance of ensuring that property owners of backlog areas do not request unnecessarily expensive methods of meeting public health and environmental requirements.
- The importance of developing a system of cost sharing that has regard to the capacity of property owners in backlog areas to pay.
- The need to ensure that Gosford Council has sufficient revenue to provide sewerage services to backlog sewerage areas that come within the scope of the NSW Government's Priority Sewerage Program. When spreading costs across the wider Gosford community, the preferred pricing option should provide a return on and of capital by adding outstanding capital costs to the Council's Regulatory Asset Base and recovering these costs through normal periodic sewerage charges.

Four potential options for the pricing of PSP backlog sewerage services in Gosford were considered by the Tribunal. The options considered are discussed below.

The final two options require the Tribunal to determine a methodology by which prices would be calculated. Methodologies are required where future costs are uncertain and make it infeasible to determine a price of a monetary value. The methodologies developed involve property owners of Priority Sewerage Program backlog areas paying 100 per cent of the cost up to a predetermined threshold and a proportion of the cost above the threshold.

4.2.1 Option 1 – Maintain status quo

Under this option, the 1997 determination of backlog sewerage services would remain unchanged and backlog sewerage capital contribution charges for property owners would continue to be calculated in accordance with the Tribunal's developer charges methodology. However, the capital cost to be recovered from property owners would need to increase to reflect the reduction in the CTWSS program subsidy.

Under Option 1 Gosford Council's backlog customers in PSP areas would be required to pay a large capital contribution for the provision of a sewerage service.

4.2.2 Option 2 – Cap charge for Mooney Mooney and Cheero Point Property Owners

A second option for the pricing of the provision of backlog sewerage services to the property owners of Priority Sewerage Program areas would be to cap charges at a specified dollar amount.

The level of contribution paid by the property owners of Fishermans Parade when they connected to their sewerage system represents a possible basis for determining a cap. A cap at such a level would ensure that the property owners of other PSP areas are treated no differently to the property owners of Fishermans Parade. Gosford Council advise that upon connection to the sewerage system, the property owners of Fishermans Parade were given

the option of paying either an upfront capital contribution charge of \$9,401 per property or a special 20-year loan rate of \$880 per annum.

Option 2 would cap the backlog sewerage capital contribution charge for Mooney Mooney and Cheero Point at \$9401 per property (the amount paid by Fishermans Parade property owners) and the remaining capital costs would be borne by the wider Gosford community in the form of a small increase in the general sewerage service charge.

A key feature of this option is that future increases in scheme costs would be borne by the property owners of Gosford generally rather than the property owners in PSP areas yet to be sewered. A disadvantage with capping contributions is that once costs are expected to breach the cap property owners may have no strong reason to prefer the most cost-effective way of meeting their requirements.

Water agencies are seeking to introduce more cost effective sewerage servicing options such as low pressure pumping systems. These systems require the installation of holding tanks and pumps on properties with the householder responsible for costs associated with pump operation.

However, some people see these systems as inferior to more traditional and more expensive gravity systems. Requiring property owners to contribute to the total cost of the scheme may encourage them to further consider lower cost options.

4.2.3 Option 3 – Property owners pay first \$3,000 and 50 per cent of remainder of capital costs

The third option considered by the Tribunal is the option proposed by the Department of Energy and Utilities in its submission to the Tribunal. Under this option, the backlog sewerage capital contribution charge would be set using a methodology whereby the property owners of PSP backlog properties would pay a fixed capital contribution of \$3,000 per property plus 50 per cent of the remaining project costs. The remaining project costs of each scheme would be met by the wider Gosford community in the form of an increase in the general sewerage service charge.

This option goes part way towards addressing the potential criticism that a cap on the contributions by owners of backlog properties requires the wider community to pay all costs above the cap threshold. A 50/50 sharing of costs between PSP backlog property owners and property owners of the wider community goes some way towards ensuring that property owners take into account the total cost of the scheme.

4.2.4 Option 4 – Property owners pay the first \$5,400 plus 67 per cent of the remainder of capital costs

Under Option 4, property owners in PSP backlog areas would be required to pay a fixed amount of \$5,400 prior to connection to the sewerage system plus two thirds of any remaining project costs. The remaining one third of total project costs would then be met by the wider Gosford community in the form of an increase in the general sewerage service charge.

This option is a variation on that proposed by DEUS and seeks to ensure that more weight is placed on the amounts to be paid by local residents. Under this option, the initial threshold is increased in recognition of the substantial benefits that residents in backlog areas obtain from the provision of sewerage facilities. The proportion of any remaining capital costs payable by owners of backlog properties is also increased to ensure that these property owners confront the major portion of the cost of serving their properties.

4.3 Issues for consideration

In developing the options, the Tribunal identified a number of key issues that had to be considered prior to deciding upon the most appropriate option for the pricing of backlog sewerage services.

These issues are discussed in further detail below.

4.3.1 Order of application of subsidies

The property owners in Priority Sewerage Program areas currently qualify for a subsidy paid by the NSW Government. Gosford Council advise that funding available under the Priority Sewerage Program currently provides a total of \$3,000 per PSP backlog property.

In addition, Gosford Council also qualifies for funding under the NSW Country Towns Water Supply and Sewerage (CTWSS) Program. Funding under the Country Towns Water Supply and Sewerage Program is now limited to 50 per cent of the total capital cost of a project.

The Tribunal has concerns about the order in which these subsidies are currently applied as the order affects the size of the local contribution. When Gosford Council calculates the backlog sewerage capital contribution charge for PSP backlog sewerage areas, it initially reduces the total capital cost of the scheme by the amount of the Priority Sewerage Program subsidy and then reduces the remaining capital cost by a further 50 per cent (the Country Towns Water Supply and Sewerage Program subsidy).

At the time of the Tribunal's initial backlog sewerage determination in 1997 the Tribunal capped the contribution payable by property owners of backlog areas in the Sydney, Hunter, parts of Gosford, and Wyong areas at \$3,000 per property. This \$3,000 contribution was subsequently offset by the Priority Sewerage Program subsidy that the Government of the day introduced shortly after the Tribunal's determination.

Consistent with this understanding that the initial intent of the Priority Sewerage Program subsidy was to pay the first \$3,000 of a resident's capital contribution, the Tribunal is of the view that the Priority Sewerage Program subsidy paid to Gosford City Council on behalf of its backlog sewerage property owners should be applied after the CTWSS subsidy of 50 per cent is deducted from the capital cost.

The following example using cost estimates for Mooney Mooney and Cheero Point demonstrates how the order in which the subsidies are applied affects the size of the PSP backlog sewerage capital contribution charge.

Table 1 Example of application of Priority Sewerage Program subsidy and Country Towns Water Supply and Sewerage Program subsidy

Costs for Mooney Mooney and Cheero Point	\$ 2005/06
CTWSS subsidy applied first	
- Total project costs	\$6,582,000
- less 50% CTWSS Program subsidy	\$3,291,000
	\$3,291,000
- less PSP subsidy (\$3,000/property for 249 properties)	\$747,000
	\$2,544,000
- divided by 249 properties	\$10,216.87/property
PSP subsidy applied first	
- Total project costs	\$6,582,000
- less PSP subsidy (\$3,000/property for 249 properties)	\$747,000
	\$5,835,000
- less 50% CTWSS Program subsidy	\$2,917,500
	\$2,917,500
- divided by 249 properties	\$11,716.87/property

For the Tribunal's modelling purposes, the Tribunal's Options 2, 3 and 4 have assumed that the Priority Sewerage Program subsidy is applied after the Country Towns Water Supply and Sewerage Program subsidy. However, for comparison purposes, the Tribunal has also provided in Appendix 1 (in parentheses) the results of the modelling when the Priority Sewerage Program subsidy is applied first.

The Tribunal recommends that when calculating the size of the subsidy payable under the Country Towns Water Supply and Sewerage Program, the NSW Government use the total capital cost of the scheme before the Priority Sewerage Program subsidy is applied.

4.3.2 Assessment of Pricing Options – Mooney Mooney and Cheero Point Case Study

The Tribunal has sought to assess the impact of alternative pricing options on the property owners of PSP backlog properties. It has also sought to assess the impact of alternative options on the wider Gosford customer base when seeking to recover the balance of the capital costs from existing property owners⁶.

⁶ Rather than assuming recovery over a defined time frame of either one or twenty years as Gosford Council has done, the Tribunal considers that the outstanding capital costs should be added to the Council's Regulatory Asset Base and recovered by way of normal periodic sewerage charges over the life of the infrastructure installed to provide the backlog properties with service. A total annual cost can then be calculated to:

- provide a return on this capital expenditure,
- provide for depreciation on this capital expenditure,

The lack of reliable cost estimates for all PSP areas in the Gosford local government area has meant that the areas of Mooney Mooney and Cheero Point have been used as a case study by the Tribunal.

Table 2 sets out a summary of the financial implications of the options set out in this report.

Table 2 Summary of financial implications of options for Mooney Mooney and Cheero Point Property Owners

Option	Initial upfront amount (per property)	Remaining portion payable by local residents (per property)	Total backlog sewerage capital contribution (per property)	Total capital costs to be spread over customer base	Approx increase in sewerage service charge (per property)(a)
1) Status quo	\$12,800	\$0	\$12,800	\$0.00	\$0.00
2) Cap charge for PSP properties	\$9,401	\$0	\$9,401	\$203,151	\$0.37
3) Department of Energy and Utilities Proposal (PSP properties each pay the first \$3,000 plus a share of 50% of any remaining capital costs)	\$3,000	\$3,600	\$6,600	\$898,500	\$1.17
4) Set by methodology (PSP properties each pay the first \$5,400 plus a share of 67% of any remaining capital costs)	\$5,400	Approx. \$3,200	Approx. \$8,600	\$402,600	\$0.60

(a) Plus any increase in operating costs.

Gosford Council advised in its submission that under the Tribunal's current determination, and with the reduced CTWSS program subsidy, property owners of Mooney Mooney and Cheero Point would be required to pay approximately \$12,800 per property, rather than \$8,600 that would have been payable prior to the reduction in the CTWSS program subsidy.

Under Option 2 the owners of all PSP backlog properties, including those in Mooney Mooney and Cheero Point, would be required to pay up to a maximum of \$9401. This is between the two figures mentioned above.

- cover additional operating costs of serving these backlog customers, and
- net off future periodic revenues expected to be received from backlog customers.

It is then a simple exercise to divide this "total annual cost" by the number of properties in the wider Gosford area to calculate the cost per property (increase in annual sewerage service charge) associated with each option to be paid by existing Gosford property owners.

Based on current cost estimates, Option 3 would result in property owners of Mooney Mooney and Cheero Point paying a capital contribution charge of approximately \$6,600 for the provision of a sewerage service. They would be required to pay 100 per cent of the first \$3,000 per property and a share of 50 per cent of the remaining capital costs of the scheme estimated at \$3,600 per property. The remaining 50 per cent of the cost above the threshold would be paid by property owners in the Gosford local government area generally. This is estimated to add \$1.17 to annual sewerage service charges. Any increases in costs would be shared in a similar manner.

Under Option 4, property owners of Mooney Mooney and Cheero Point would pay 100 per cent of the first \$5,400 per property and a share of 67 per cent of the remaining capital costs of the scheme estimated at \$3,200 per property. Under this option, property owners of Mooney Mooney and Cheero Point would pay a lump sum contribution of approximately \$8,600⁷ per property based on current estimates of known costs. A contribution by Mooney Mooney and Cheero Point property owners of this amount is consistent with these owners paying for increases in construction costs that have occurred to date. This amount is also consistent with what property owners would have had to pay prior to the reduction in the CTWSS program subsidy.

Owners of seweraged properties in Gosford more generally would, in effect, be called upon to meet the reduction in the CTWSS Program subsidy from 67 per cent to 50 per cent of the current estimated construction cost. This is consistent with what will take place elsewhere in the State in areas that are similarly affected by changes to the subsidy arrangements.

Under this option, any future unforeseen increase in construction costs that might occur between now and the completion of construction will be shared between owners of property in Mooney Mooney/Cheero Point and owners of property in Gosford more generally in the ratio of 67 per cent to 33 per cent.

Further detail on the options considered by the Tribunal and an indication of the impact of each option on both the property owners of Mooney Mooney/Cheero Point and the existing Gosford customer base is provided at Appendix 1.

⁷ This figure is calculated by using the estimated cost per property of \$10,216.87 shown in Table 1 as follows:

$$\begin{aligned} \text{BCCC} &= \$5,400 + (\$10,216.87 - \$5,400) \times 0.67 \\ &= \$8,627.30 \end{aligned}$$

This approach assumes that the Country Towns Water Supply and Sewerage Program subsidy is applied before the Priority Sewerage Program subsidy and that all 249 Priority Sewerage Program properties will receive the full subsidy of \$3,000 per property.

5 TRIBUNAL'S PREFERRED OPTION

Of the options considered by the Tribunal, the Tribunal has decided to adopt Option 4. This option will apply to all Priority Sewerage Program backlog sewerage properties in the Gosford local government area.

Option 4 is favoured as it will:

- Reduce the financial burden on the property owners in Priority Sewerage Program areas thereby recognising the importance of providing an adequate sewerage service to environmentally sensitive communities.
- Be easily applied to all Gosford Priority Sewerage Program communities.
- Result in any future unforeseen project cost increases being shared between backlog property owners and the wider Gosford community in the ratio 67%:33%. This cost sharing is expected to encourage Gosford Council to manage the project cost effectively.
- Result in manageable increases over time in sewerage service charges for Gosford Council's existing sewerage customers.
- Retain the option for backlog property owners to pay the amount either up-front or in annual instalments over 20 years.

In the case of Mooney Mooney and Cheero Point this will mean:

- Property owners in Mooney Mooney and Cheero Point will absorb identified project cost increases to date. Cost increases associated with the Government decision to reduce the Country Towns subsidy will be spread across the wider Gosford customer base.
- Property owners of Mooney Mooney and Cheero Point will pay about the same amount that they would have paid prior to the reduction in the size of the Country Towns Water Supply and Sewerage Program subsidy based on current cost estimates, namely \$8,600.
- Only a marginal increase in the overall sewerage service charge for Gosford Council's existing sewerage customers. To cover the cost of sewerage the areas of Mooney Mooney and Cheero Point this is estimated to approximate \$0.60⁸ per property per year based on current known capital cost estimates⁹.

When making a determination of prices the Tribunal is required to have regard to a range of measures set out in Section 15 of the IPART Act¹⁰. These issues fall under the broad headings of:

- consumer protection
- economic efficiency
- financial viability
- environmental protection.

⁸ This calculation has been based on an assumed asset life of 70 years.

⁹ Operating costs of the scheme will also be recovered by way of an increase in sewerage service charges.

¹⁰ These requirements are more fully set out in Appendix 2.

When the Tribunal determines a methodology for the fixing of a price it may have regard to a range of matters specified in Section 14A of its Act¹¹.

The following chapter analyses the Tribunal's preferred option in terms of the provisions of Section 14A and Section 15 of the IPART Act. Section 5.1 addresses consumer protection, Section 5.2 addresses economic efficiency, Section 5.3 addresses financial viability, and Section 5.4 outlines the implications of the Tribunal's determination for the environment. Section 5.5 addresses some particular issues relating to the methodology.

5.1 Consumer protection

Section 15 of the IPART Act requires that the Tribunal have regard to the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services. Under Section 14A the Tribunal may have regard to charges for other monopoly services provided by Gosford Council, such as sewerage service charges.

While it recognises the importance of providing an adequate sewerage service to environmentally sensitive communities, the Tribunal is concerned about the potential customer impacts associated with the very large backlog sewerage capital contribution charges for properties coming within the scope of the Governments' Priority Sewerage Program.

It is the Tribunal's opinion that the option selected for pricing backlog sewerage services to PSP properties should reduce the financial burden owners of these properties face while also avoiding large price increases on existing Gosford property owners.

By partly reducing the financial burden on PSP backlog property owners (from \$12,800 to approximately \$8,600 per property in the case of Mooney Mooney and Cheero Point) and only marginally increasing the overall sewerage service charge for existing Gosford customers, the Tribunal considers that Option 4 protects consumers, and achieves an equitable outcome without compromising Council's financial viability or imposing an unreasonable additional burden on existing customers.

The Tribunal favours this option as it is generally considered more equitable for a larger number of property owners to bear a small proportion of the project costs rather than requiring a small number of property owners to bear all the costs where there are substantial public health and environmental benefits.

Under Option 4, the property owners of Mooney Mooney and Cheero Point will be required to met the major part of any future unforeseen project cost increases that might occur but the costs associated with the Government decision to reduce the Country Towns Water Supply and Sewerage Program subsidy will be borne by the wider Gosford community.

¹¹ These matters are also more fully set out in Appendix 2.

5.2 Economic efficiency

The Tribunal is also required (under Section 15 of the IPART Act) to consider the need for greater efficiency in the supply of services to reduce costs for the benefit of consumers and taxpayers. Under Section 14A of the IPART Act the Tribunal may also consider Gosford Council's economic cost of providing backlog sewerage services to PSP properties when making a determination of a methodology.

Economic efficiency in the pricing of water and wastewater services generally requires that the Tribunal set prices that are based on the cost of providing these services. Where charges are set below cost, there is a concern that inappropriate pricing signals could be sent to consumers about the cost of providing services.

An exception to this rule is where the provision of a service confers benefits on third parties. These third party benefits could include environmental improvements and enhanced public health outcomes that extend beyond the property owners immediately benefiting from the provision of the service. As previously mentioned, the Tribunal recognises that the provision of sewerage facilities to PSP backlog areas will confer wider environmental and public health benefits

Through its cost-sharing approach the Tribunal's determination provides encouragement for Gosford Council and backlog communities to find cost-effective solutions to the public health and environmental problems in these areas.

5.3 Financial viability

Under Section 14A of the IPART Act, the Tribunal may, and under Section 15 must, also have regard to a range of issues relating to the cost of providing the services concerned to ensure that the financial viability of Gosford City Council is not compromised.

Gosford City Council's financial viability will be maintained under the option selected as all costs of the scheme will be recovered through either:

- The Country Towns Water Supply and Sewerage Program subsidy.
- Priority Sewerage Program funding.
- Property owners' capital contributions.
- Gosford Council's sewerage service charges.

5.4 Implications for the environment

Further criterion to be considered by the Tribunal under Sections 14A and 15 of the IPART Act relate to the need to maintain ecologically sustainable development by setting appropriate pricing policies that take account of all the feasible options available to protect the environment.

In developing its preferred option for the pricing of backlog sewerage services, the Tribunal has had regard to the significant environmental and public health benefits that are likely to accrue from the provision of sewerage services to the Priority Sewerage Program communities in the Gosford area of operations.

The Tribunal is mindful of the fact that the Hawkesbury River communities have been classified by the former Environment Protection Authority (EPA) as “Category A - high environmental ranking” and that the receiving waters are a sensitive environment. With this in mind, the provision of sewerage services to these communities is likely to result in substantial environmental improvements and a significant reduction in human health risks. The Tribunal’s preferred pricing option has been formulated so as to not discourage the provision of services.

5.5 Further considerations relating to the setting of a methodology

As previously mentioned, when Gosford Council calculates the backlog sewerage capital contribution charge for backlog sewerage areas, it initially reduces the total capital cost of the scheme by the amount of the Priority Sewerage Program subsidy and then reduces the capital cost by a further 50 per cent (the Country Towns Water Supply and Sewerage subsidy).

The Tribunal has recommended that when calculating the size of the subsidy payable under the Country Towns Water Supply and Sewerage Program, the NSW Government use the total capital cost of the scheme before the Priority Sewerage Program subsidy is applied.

To calculate a capital contribution charge under the Tribunal’s methodology will involve the use of the following formula:

$$PACC = IFC + \left(\left(\frac{PV(k - (k \times CTWSS)) - PSP}{PV \text{ Lots}} \right) \times 0.67 \right)$$

Where:

PACC	= PSP Area Contribution Charge for backlog sewerage properties in a PSP area.
IFC	= An initial fixed amount up to a maximum of \$5,400. This amount of \$5,400 is to be indexed by CPI each year
PV	= Present Value
<i>k</i>	= Capital Cost of the backlog sewerage scheme before the application of subsidies
CTWSS	= the amount of subsidy under the CTWSS Program expressed as a decimal of the capital cost
PSP	= the amount of the subsidy to be made available under Priority Sewerage Program
Lots	= number of lots in a PSP Backlog Sewerage Scheme Area

Council will only be required to make one calculation of the amount of the capital contribution required by property owners in each Priority Sewerage Program scheme. This should be done when all costs of the scheme are known but prior to property owners commencing to connect to the scheme.

In order to calculate the charge a number of parameters need to be specified, particularly the discount rate to apply and how the charge is to move in the future in relation to changes in price levels.

5.5.1 Discount Rate

In order to calculate the capital contribution charge, the Tribunal has determined that Gosford Council will use the Weighted Average Cost of Capital (WACC) from time to time determined by the Tribunal in the present value calculations required. At the present time Council's WACC is 6.1 per cent. The Tribunal reviews the Council's WACC at each determination of periodic charges.

5.5.2 Price Movements

The Tribunal recognises that over time price levels change. It has therefore determined that the Capital Contribution Charge should be indexed to increase in line with annual movements in the Consumer Price Index for Sydney published by the Australian Bureau of Statistics from time to time.

5.5.3 Time Payment

Under the Tribunal's current sewerage backlog determination for Gosford, provision is made for property owners to either pay the charge in a lump sum prior to connection or over a period of 20 years by way of a special rate. The Tribunal has decided that this time payment option will continue subject to interest being payable on the outstanding balance. The interest rate applicable will be the 10-year Commonwealth bond rate.

GLOSSARY OF TERMS

<i>Term</i>	<i>Meaning/Definition</i>
CEN	Central Coast Community Environment Network
Council	When we refer to Gosford City Council, or the Council, we mean the water and sewerage sections of the council - the regulated business.
CTWSS Program	Country Towns Water Supply and Sewerage Program
DEC	Department of Environment and Conservation
Determination	The price limits set by a regulator
DEUS	Department of Energy, Utilities and Sustainability
Financial year	The financial year commencing on 1 July and ending 30 June
Gosford Council	Gosford City Council
IPART	Independent Pricing and Regulatory Tribunal
IPART Act	The Independent Pricing and Regulatory Tribunal Act 1992
Issues Paper	Independent Pricing and Regulatory Tribunal of NSW, Review of Backlog Sewerage Services - Issues Paper, August 2005
PIAC	Public Interest Advocacy Centre
PSP	Priority Sewerage Program
NSW	New South Wales
Review	2005 Review of Backlog Sewerage Services for Gosford City Council
Sydney Water	Sydney Water Corporation
Tribunal	The Independent Pricing and Regulatory Tribunal of NSW

APPENDIX 1 FINANCIAL ANALYSIS OF OPTIONS¹²

<i>Option</i>	<i>Description</i>	<i>Backlog sewerage capital contribution (per property)</i>	<i>Total capital costs to be spread over customer base</i>	<i>Approx increase in sewerage service charge (per property)</i>
1. Status quo	<ul style="list-style-type: none"> Option 1 represents no change to the Tribunal's 1997 Determination of backlog sewerage services. Under this option, Mooney Mooney and Cheero Point property owners would be required to pay the full cost of the provision of sewerage facilities (currently estimated by Council to be \$12,800/property). 	\$12,800	\$0.00	\$0.00
2. Capped charge for PSP properties	<ul style="list-style-type: none"> Under this option, the backlog sewerage capital contribution for properties in PSP areas, including Mooney Mooney and Cheero Point would be capped at \$9401. \$9401 was the amount paid by Fishermans Parade when connecting to the sewerage system. The remaining capital costs would be borne by the wider Gosford community in the form of a small increase in the general sewerage service charge. Any future increases in scheme costs would be borne by the existing property owners of Gosford Council rather than the backlog property owners of Mooney Mooney and Cheero Point. 	\$9,401 (\$9,401)	\$203,151 (\$576,651)	\$0.40 (\$0.80)

¹² The figures in parentheses have been calculated on the assumption that the Priority Sewerage Program subsidy (a fixed \$3,000 per lot) is applied before the Country Towns Water Supply and Sewerage subsidy (50% of total capital cost). Gosford Council has typically applied the Priority Sewerage Program subsidy before the Country Towns Water Supply and Sewerage subsidy but the Tribunal is of the opinion that this was not the initial intent of the subsidy

<i>Option</i>	<i>Description</i>	<i>Backlog sewerage capital contribution (per property)</i>	<i>Total capital costs to be spread over rate base</i>	<i>Approx increase in wastewater service charge (per property)</i>
3. Department of Energy and Utilities proposal (Each Priority Sewerage Program property owner to pay \$3,000 plus a share of 50 per cent of additional costs)	<ul style="list-style-type: none"> Under this option, the backlog sewerage capital contribution for all Priority Sewerage Program backlog communities would be set using a methodology. The owners of properties in PSP areas, including Mooney Mooney and Cheero Point, would pay a fixed capital contribution of \$3,000/property plus 50 per cent of the remaining project costs. The shortfall would be met by the wider Gosford community in the form of an increase in the general sewerage service charge. Under current cost estimates, Option 3 means that property owners of Mooney Mooney and Cheero Point would pay \$6,600 for the provision of sewerage facilities. This option was proposed by the Department of Energy and Utilities and would, in practice, apply to all 607 Priority Sewerage Program lots in Gosford. 	\$6,600 (\$7,400)	\$898,500 (\$1,085,250)	\$1.20 (\$1.40)
4. Backlog Sewerage Capital Contribution charge set by methodology (PSP property owner pay the first \$5,400 plus a share of 67% of the remaining capital costs)	<ul style="list-style-type: none"> Under this option, the initial capital contribution payable by backlog property owners would increase from \$3,000 per property to \$5,400 per property. Additional project costs would be shared between the owners of properties in PSP areas and the wider Gosford community in the ratio 67:33. Based on current cost estimates, this would result in a total capital contribution payable by the property owners of Mooney Mooney and Cheero Point of approximately \$8,600. 	\$8,600 (\$9,600)	\$402,600 (\$525,855)	\$0.60 (\$0.75)

APPENDIX 2 MATTERS TO BE CONSIDERED BY THE TRIBUNAL

The Tribunal's decisions have been made in accordance with the requirements set out in the IPART Act, including the factors contained in Sections 14A and 15 of the Act. These sections, which are reproduced in full in Boxes A1 and A2, specify the matters the Tribunal is to consider when making a determination. The Tribunal is satisfied that its determination achieves a reasonable balance between these matters.

SECTION 14A OF THE IPART ACT

Box A1 Matters that may be considered by the Tribunal under Section 14A of the IPART Act

(1) A determination of the Tribunal of the methodology for fixing the price for a government monopoly service may be made in any manner the Tribunal considers appropriate, including, for example, by reference to maximum revenue, or a maximum rate of increase or minimum rate of decrease in maximum revenue, for a number of categories of the service concerned.

(2) In making such a determination, the Tribunal may have regard to such matters as it considers appropriate, including, for example, the following:

- (a) the government agency's economic cost of production,*
- (b) past, current or future expenditures in relation to the government monopoly service,*
- (c) charges for other monopoly services provided by the government agency,*
- (d) economic parameters, such as:
 - (i) discount rates, or*
 - (ii) movements in a general price index (such as the Consumer Price Index), whether past or forecast,**
- (e) a rate of return on the assets of the government agency,*
- (f) a valuation of the assets of the government agency,*
- (g) the need to maintain ecologically sustainable development (within the meaning of section 6 of the Protection of the Environment Administration Act 1991) by appropriate pricing policies that take account of all the feasible options available to protect the environment,*
- (h) the need to promote competition in the supply of the service concerned,*
- (i) considerations of demand management (including levels of demand) and least cost planning.*

(3) In any report of such a determination, the Tribunal must indicate what regard it has had to the matters set out in subsection (2) in reaching that determination.

SECTION 15 OF THE IPART ACT**Box A2 Matters to be considered by the Tribunal under Section 15 of the IPART Act**

(1) *In making determinations and recommendations under this Act, the Tribunal is to have regard to the following matters (in addition to any other matters the Tribunal considers relevant):*

- (a) the cost of providing the services concerned,*
- (b) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services,*
- (c) the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales,*
- (d) the effect on general price inflation over the medium term,*
- (e) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers,*
- (f) the need to maintain ecologically sustainable development (within the meaning of section 6 of the [Protection of the Environment Administration Act 1991](#)) by appropriate pricing policies that take account of all the feasible options available to protect the environment,*
- (g) the impact on pricing policies of borrowing, capital and dividend requirements of the government Council concerned and, in particular, the impact of any need to renew or increase relevant assets,*
- (h) the impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body,*
- (i) the need to promote competition in the supply of the services concerned,*
- (j) considerations of demand management (including levels of demand) and least cost planning,*
- (k) the social impact of the determinations and recommendations,*
- (l) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).*

(2) *In any report of a determination or recommendation made by the Tribunal under this Act, the Tribunal must indicate what regard it has had to the matters set out in subsection (1) in reaching that determination or recommendation.*

APPENDIX 3 LETTER FROM MINISTER FOR ENERGY AND UTILITIES

NEW SOUTH WALES

MINISTER FOR ENERGY AND UTILITIES
MINISTER FOR SCIENCE AND MEDICAL RESEARCH
MINISTER ASSISTING THE MINISTER FOR HEALTH (CANCER)
MINISTER ASSISTING THE PREMIER ON THE ARTS



DEUS Ref: 05/517

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

14 MAR 2005

Dear Mr Cox

I refer to the Tribunal's letter of 8 December 2004 to Gosford City Council regarding capital contributions by residents for backlog sewerage in Gosford City. The properties concerned are all within the Government's Priority Sewerage Program (PSP) where substantial environmental and public health benefits accrue to both the local and the wider community.

The Tribunal's letter notes that in order for the Tribunal to assess whether Council may spread certain additional costs for backlog sewerage projects over its entire customer base, the Tribunal would need to re-open its 1997 Determination of Backlog Sewerage Services in Gosford City (Determination 4.2, 1997). It is understood that Gosford City Council has decided not to request re-opening of this Determination.

The additional backlog sewerage costs have been estimated by Council to be approximately \$6,000 per lot. This is a significant additional impost on those property owners within the backlog sewerage areas of Gosford City, and may be seen as inequitable, particularly when compared with residents in Brooklyn and Dangar Island in the Sydney Water area, as well as the other PSP areas in Sydney, Hunter and Wyong where residents are not now required to pay any up front capital contributions.

Accordingly, it is requested that the Tribunal re-open its 1997 determination in order to examine spreading of the additional backlog sewerage costs over Gosford Council's entire customer base. It would be appreciated if this investigation could be undertaken as part of the Tribunal's 2005 Urban Water Review.

It is understood that in order to provide for the cost of servicing the additional capital cost for all of the PSP backlog sewerage areas in Gosford City, an increase of under \$10/assessment would be required in the annual Gosford residential sewerage bills.

The Tribunal's early consideration of this matter would be appreciated.

Yours sincerely

Frank Sartor

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Telephone: (02) 9228 4700 Facsimile: (02) 9228 4711 Email: office@sartor.minister.nsw.gov.au

APPENDIX 4 LIST OF SUBMISSIONS RECEIVED

<i>Individual</i>	<i>Organisation</i>
Mr. P. Wilson	Gosford City Council
Mr. C. McLean	The Department of Energy, Utilities and Sustainability (DEUS)
Mr. J. Andrews	The Mooney Cheero Progress Association
Mr. J. Wellsmore	The Public Interest Advocacy Centre, (PIAC)
Ms. J. Smith	The Community Environment Network (CEN)

APPENDIX 5 LIST OF PRESENTERS AT THE PUBLIC HEARING

<i>Individuals</i>	<i>Organisation</i>
Mr Rod Williams	Gosford City Council
Mr Steve Diffey	Gosford City Council
Mr Paul Jupp	Gosford City Council
Mr Sam Samra	The Department of Energy, Utilities and Sustainability (DEUS)
Mr John Andrews	The Mooney Cheero Progress Association
Mr Jim Wellsmore	The Public Interest Advocacy Centre, (PIAC)
