

**REVIEW OF WATER, WASTEWATER AND
STORMWATER PRICES FOR GOSFORD CITY COUNCIL
AND WYONG SHIRE COUNCIL**

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

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INTRODUCTION

Total Environment Centre (TEC) welcomes the opportunity to contribute to the Independent Pricing and Regulatory Tribunal (IPART) review of water, wastewater and stormwater prices for Gosford City Council and Wyong Shire Council.

TEC is strongly opposed to the proposed Tillegra Dam on the Williams River as a supply option for the Hunter and Central Coast. As detailed below, Tillegra Dam is not required to secure supply for the Central Coast. Our submission to the review of Hunter Water Corporation (HWC) prices will also detail reasons why Tillegra Dam is not required to supply the Hunter. In view of this TEC does not believe that the Tribunal should make any provision for recovering the costs of Tillegra Dam in the setting the next price path for Gosford and Wyong Councils or for HWC.

REVENUE REQUIREMENTS

Capital expenditure

TEC welcomes proposed capital expenditure on stormwater harvesting at Porters Creek, the Gosford Water Factory and Woy Woy water recycling project. We urge the Councils and IPART to investigate additional opportunities for recycling.

Demand management

TEC recognises that the Councils have invested significantly in demand management initiatives since the last determination as part of their drought response. We are concerned, however, by the self congratulatory tone of the Councils' submissions in this regard. While acknowledging and welcoming the Councils' current initiatives we believe that additional opportunities exist for demand management that should be pursued in the upcoming determination period.

We note that there is a 50% probability of the system recovering to 47% by 2011 and that based on this it is estimated that water restrictions will be progressively eased until 2011/12 when they will be removed.

The draft WaterPlan 2050 strategy (Gosford-Wyong Councils' Water Authority, 2006a) proposed permanent water savings conditions to be introduced when current restrictions are lifted, including restricting garden watering between 10am and 4pm, banning hosing of paths without permits and mandatory use of trigger hoses for car washing.

The adopted WaterPlan 2050 strategy (Gosford-Wyong Councils' Water Authority, 2006b), however, contains no reference to permanent water savings rules. Given the Councils' own data reveals a significant chance of supplies recovering to the point where restrictions are lifted within the next price period we strongly believe that permanent water savings rules should be applied once current restrictions are lifted. We also believe

that the ban on hosing of paths proposed in the draft WaterPlan 2050 strategy should be extended to all hard surfaces and that there be no provision for permits to allow such use.

Adopting such permanent water savings rules would bring Gosford and Wyong Councils into line with Sydney Water Corporation and other Australian cities such as Melbourne and Adelaide. With Central Coast water users having adjusted to restrictions and adopted more efficient water use practices it would be senseless to abandon these gains by reverting to an unrestricted regime and wasteful consumption patterns once storage levels recover. Failure to introduce these rules indicates that the Councils are not currently pursuing best practice demand management.

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

Wyong Council's submission indicates that, following improvement in supply levels in December 2007, Wyong Council initiated an aggressive mains flushing program to improve water quality (Wyong Shire Council, 2008). While Gosford City Council's submission indicates that approximately 10ML/a has been saved by reusing this water for non-potable use (Gosford City Council, 2008) it is not clear what proportion of water used for mains flushing and reservoir cleaning this represents. We urge the Tribunal to ascertain whether there are additional opportunities for reuse of water used in mains flushing and reservoir cleaning operations.

Supply security

TEC notes that Gosford and Wyong Councils have adopted a range of measures for both immediate drought recovery and long term water supply security including the Mardi-Mangrove link. This link forms the major element of the WaterPlan2050 Strategy. As noted in the Councils submissions this strategy will secure supply to the Central Coast for 45 years (Gosford City Council, 2008; Wyong Shire Council, 2008). The Mardi-Mangrove link was chosen following an extensive process of assessing the costs and benefits of various water supply options and inviting public comment.

TEC believes that the selected option is inferior to recycling options that were considered as part of the WaterPlan 2050 Strategy in terms of cost and environmental impact, in particular, options to use recycled water for environmental flow substitution or indirect potable reuse into Mardi Dam. We note also that these recycling options would secure supply for until 2042 (environmental flow substitution) or 2052 (indirect potable reuse)

compared to 2047 for the Mardi-Mangrove pipeline (Gosford-Wyong Councils' Water Authority, 2006a).

We note, however, that it is superior to other options considered including Tillegra Dam and construction of a permanent desalination plant. We note also that the proposed link offers a faster supply recovery time than Tillegra Dam and desalination options (Gosford-Wyong Councils' Water Authority, 2006).

Tillegra Dam

As stated in the introduction to this submission TEC rejects the necessity to construct Tillegra Dam to supply the Central Coast or the Hunter. It is clear that the proposed Mardi-Mangrove link and other components of the WaterPlan 2050 strategy will secure supply to the Central Coast for 45 years at considerably lesser cost and environmental impact. Our submission on Hunter Water Corporation prices will detail why Tillegra Dam is not required for the Hunter.

We note that the NSW Government has directed the Tribunal to consider the "efficient costs" of Tillegra Dam. We note also the Tribunal's comment that this has the implication of limiting the review of costs to assessing whether the projects are being undertaken in the most cost effective way possible (IPART, 2008).

This is a travesty of the IPART process. Any valid consideration of efficient costs should, in the first instance, consider the need for Tillegra Dam. TEC is convinced that the Tillegra Dam could not withstand such scrutiny.

The Government's direction thus has the effect of precluding the Tribunal from conducting a thorough, rigorous assessment of the Tillegra Dam and whether it is an appropriate water management option. This represents a serious undermining of the integrity of the IPART process and of the Tribunal's independence.

TEC sees no justification for including the costs of constructing and operating Tillegra Dam in prices for Gosford and Wyong Councils or Hunter Water Corporation.

TEC is deeply concerned by the Tribunal's suggestion that "given that Tillegra Dam is now going ahead, and that there has been a recent augmentation of the Hunter to Central Coast water pipeline, a potential consideration for this review is whether expenditure on the Mardi-Mangrove Link is necessary (and hence efficient) at this time, or whether it would be more efficient to delay construction of this link until the next major supply augmentation measure for the Hunter and Central Coast is required" (IPART, 2008).

This suggestion cannot be allowed to go unanswered. It should be noted that Tillegra Dam has not been approved. At the time of completing this submission no EIS for the project had been placed on exhibition. It is disturbing that the Tribunal would assume that Tillegra Dam is proceeding prior to exhibition of the EIS and planning assessment.

It should also be noted that the Mardi-Mangrove link was selected as the preferred option for securing supply on the Central Coast following an extensive assessment of various options (including Tillegra Dam) and public consultation and that \$80 million in Federal funding has been committed. Not proceeding with the link in favour of Tillegra Dam would effectively force the Central Coast to abandon a strategy chosen after extensive public consultation and assessment in favour of a more expensive and environmentally damaging option. Furthermore, the Mardi-Mangrove link provides a faster supply recovery period than Tillegra Dam.

Recycled water schemes

TEC supports the Tribunal's pricing guidelines for water agencies to use in calculating recycled water prices. In particular, we endorse the principle that water utilities should be able to recover avoided costs attributable to water recycling schemes from the broader customer base (IPART, 2008).

TEC supports the Councils' recycling initiatives but believes more effort should be made to increase the quantity of effluent recycled. As stated elsewhere in this submission, we urge the Councils and IPART to seek additional opportunities for effluent reuse.

Output measures

TEC believes that the Tribunal's proposed output measures provide a useful means of assessing the Councils' performance in relation to capital and operating expenditure, however, we believe they are too narrowly focussed and do not allow measurement of demand management and recycling activities. We urge the Tribunal to adopt output measures for demand management and recycling. These should be both qualitative (i.e. adequacy of strategies) and quantitative (volume of water saved/recycled) in nature.

PRICE SETTING

Determining appropriate water sales

The Tribunal's issues paper indicates that it is seeking detailed information from the Councils in relation to forecast water sales. We note that in both the 2005 and 2006 determinations the Tribunal engaged consultants to review the data submitted by the Councils (IPART, 2008).

We urge the Tribunal to repeat this process to determine the robustness of the Councils' forecasts. This analysis should also consider the adequacy of demand management initiatives. Calculation of appropriate water sales should be based on the Councils pursuing best practice demand management. As noted above, TEC is not convinced that the Councils are pursuing best practice demand management in relation to the use of permanent water savings rules or in the proposed levels at which restrictions will be eased.

TEC recognises that the total water sales over the price period will be heavily influenced by the level of restrictions in place over the determination period. Should the level of restrictions differ markedly from those forecast by the Councils there may be a significant variation between forecast and actual consumption. In view of this we see merit in the proposal by Gosford City Council that the Tribunal adopt a similar mechanism to that applied for Sydney Water Corporation, Hunter Water Corporation and the Sydney Catchment Authority i.e. where consumption varies by more than ten percent above or below forecast levels the Tribunal may adjust the revenue requirement for the subsequent determination (Gosford City Council, 2008).

Length of determination period

TEC notes that the Tribunal is proposing a four year determination period from 1 July 2009 to 30 June 2013 (IPART, 2008). This period is supported by both Gosford and Wyong Councils (Gosford City Council, 2008; Wyong Shire Council, 2008). Assuming that forecast water sales by the Councils are found to be accurate TEC believes that a four year determination period would be appropriate.

Price structures

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

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

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

Gosford City Council's submission to the 2005 review stated that in September 2005 Council resolved to support an inclining block tariff structure but that logistical issues

needed to be addressed to allow such a structure to be introduced (Gosford City Council, 2005).

In view of this, we are surprised that neither Council proposes to introduce inclining block tariffs in their submissions to the present review. TEC remains convinced that both Councils should move to an inclining block tariff structure with reduction in fixed charges as important demand management measures. We urge the Tribunal to adopt a bold approach and institute this essential reform.

Scarcity pricing

TEC sees little merit in applying scarcity pricing to Gosford and Wyong Councils.

Advocates of scarcity pricing ignore the importance of conserving water both during droughts and in periods of abundant supply.

Scarcity pricing is most applicable for situations where supply is provided by 'run of river' type operations with little or no storage capacity. In such situations there is no capacity to maintain storage levels to provide a buffer against later drought conditions.

Reliance on scarcity pricing would allow more affluent customers to simply buy their way out of the obligation to conserve water. Application of water restrictions provides a more equitable approach and ensures that the burden of conserving water is shared more equally across all sections of the community.

TEC concurs with the Tribunal's comment that water restrictions appear to have broad community acceptance (IPART, 2008). This is indicated by the high level of compliance with restrictions in both the Sydney Water Corporation and Gosford/Wyong areas of operation.

Furthermore, restrictions have a valuable role to play in changing behaviour. As noted in Wyong Council's submission communities' water usage habits change slowly when restrictions are eased (Wyong Shire Council, 2008). It is interesting to note that despite restrictions being relaxed from level 4 to level 3 on 30 March 2008 actual demand reduction increased from 32.0% to 35.0% (Gosford City Council, 2008). While this may partly be explained by increased rainfall reducing the need for outdoor watering it is clear that there has been a significant behavioural shift amongst Central Coast water users.

Wastewater charges

In their submissions to the Tribunal both Gosford and Wyong Councils propose continuation of fixed sewerage service charges for residential properties and a combination of access charge and usage charges (based on metered water use with discharge factor applied) to non-residential customers (Gosford City Council, 2008; Wyong Shire Council, 2008).

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

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

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

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

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

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

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

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

Stormwater charges

TEC notes that both Councils are proposing the use of fixed charges to recover costs of providing stormwater services. We believe that this approach is seriously flawed.

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

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

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

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

In determining the revenue requirements of the Councils and appropriate charges for stormwater we urge the Tribunal not to provide Councils with funding that will simply be used to fund environmentally damaging hard engineering approaches such as channelisation and sealing of natural watercourses. Conversely, projects which seek to adopt a more enlightened approach and which will actively reduce urban run off or improve stormwater quality should be regarded as worthy of immediate support and provision made to ensure that charges provide an adequate level of funding.

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