



**Central Coast Water Prices: Submission to
IPART review of prices for water, wastewater
and stormwater services for Gosford City
Council and Wyong Shire Council**

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The Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit law and policy organisation that seeks to promote a just and democratic society by making strategic interventions on public interest issues.

PIAC identifies public interest issues and, where possible and appropriate, works co-operatively with other organisations to advocate for individuals and groups affected.

In making strategic interventions on public interest issues PIAC seeks to:

- expose unjust or unsafe practices, deficient laws or policies;
- promote accountable, transparent and responsive government;
- encourage, influence and inform public debate;
- promote the development of law—both statutory and common—that reflects the public interest; and
- develop community organisations to pursue the interests of the communities they represent.

Established in July 1982 as an initiative of the Law Foundation of New South Wales, with support from the NSW Legal Aid Commission, PIAC was the first, and remains the only, broadly based public interest legal centre in Australia. Financial support for PIAC comes primarily from the NSW Public Purpose Fund and the Commonwealth and State Community Legal Centre Funding Program. PIAC also receives funding from the NSW Government Department of Energy and Water for its work on utilities, and from Allens Arthur Robinson for its Indigenous Justice Program. PIAC also generates income from project and case grants, seminars, consultancy fees, donations and recovery of costs in legal actions.

Energy + Water Consumer Advocacy Program (EWCAP)

This Program was established at PIAC as the Utilities Consumers' Advocacy Program in 1998 with NSW Government funding. The aim of the Program is to develop policy and advocate in the interests of low income and other residential consumers in the NSW energy and water markets. PIAC receives policy input to the Program from a community-based reference group whose members include:

- Council of Social Service of NSW (NCOSS);
- Combined Pensioners and Superannuants Association of NSW (CPSA);
- Park and Village Service;
- Ethnic Communities Council NSW;
- Rural and remote consumers;
- Institute of Sustainable Futures, University of Technology;
- Indigenous consumer representative; and
- Western Sydney Community Forum

1. Introduction

PIAC welcomes the opportunity to provide comment on the Independent Pricing and Regulatory Tribunal (IPART) review of prices for water, wastewater, and stormwater services for Gosford City Council and Wyong Shire Council.

PIAC takes this opportunity to express concern about the impact of water price increases on low-income and other disadvantaged residents of the Central Coast. In the absence of the provision of adequate information from the local councils themselves, PIAC also recommends a suite of social support programs that Gosford Council and Wyong Council should employ to assist residents to manage higher water bills. This submission also seeks to draw IPART's attention to several factors that may negate the need to approve price increases to the extent proposed by both Gosford Council and Wyong Council, such as their capacity to undertake proposed capital expenditure programs.

2. Proposed price increases

Gosford Council states that its pricing proposal would increase the average residential property bill by 37 per cent or \$304 over the next four years¹. Wyong Council indicates that its price path would add 19 per cent or \$154 to the average residential property bill over the same period². PIAC is concerned that both of these proposals represent an increase above the forecast consumer price index.

PIAC also notes that neither proposal incorporates prospective costs arising from the Tillegra Dam project. So too, they neglect to include the impact of a carbon price following the implementation of the Carbon Pollution Reduction Scheme. PIAC submits that the addition of these costs will see the average water bill increase higher than indicated by either council.

Wyong Council's representation of the impact on the average water bill assumes that household consumption will remain constant over the determination period³. This is in spite of the likelihood that water restrictions will be progressively eased⁴. PIAC contends that easing water restrictions is likely to result in increased water consumption and will thus increase the average water bill above the 19 per cent submitted by Wyong Council.

PIAC is also very concerned that Gosford Council's submission may conceal the extent of the impact of its proposal by seeking full cost recovery over an eight year period⁵. If IPART determines this is an inappropriate course of action, it is PIAC's understanding that residents of Gosford may be faced with a much more substantial increase in the price of water over the next four years.

3. Impact on consumers

The Central Coast is home to a large number of low-income residents. The Australian Bureau of Statistics indicates that both Gosford Council⁶ and Wyong Council⁷ house a greater proportion of aged pensioners than the NSW average⁸. As recent admissions from the Prime Minister, Deputy Prime Minister and Treasurer attest, the current aged pension provides an inadequate income on which to live. Wyong

¹ Gosford City Council (2008) *Submission to Independent Pricing and Regulatory Tribunal of New South Wales Proposal for Water, Wastewater and Stormwater Prices*, 55.

² Wyong Shire Council (2008) *Submission to Independent Pricing and Regulatory Tribunal Price Path from 1 July 2009 – 30 June 2013*, 19.

³ Ibid 21.

⁴ Ibid Appendix C 7.

⁵ Gosford City Council, above n 1, v

⁶ Australian Bureau of Statistics (2003) *National Regional Profile: Gosford* <www.abs.gov.au> at 7 October 2008.

⁷ Australian Bureau of Statistics (2003) *National Regional Profile: Wyong* <www.abs.gov.au> at 7 October 2008.

⁸ Australian Bureau of Statistics (2003) *National Regional Profile New South Wales* <www.abs.gov.au> at 7 October 2008.

Council is also home to a higher proportion of Disability Support Pension recipients, who receive payments equal to the aged pension, than the rest of NSW⁹. The median weekly individual, family and household incomes for residents of both Gosford¹⁰ and Wyong¹¹ are also substantially lower than the median weekly individual, family and household incomes across the state¹².

Many low-income residents of Gosford and Wyong are already struggling to make ends meet following recent increases in the price of electricity, food, petrol and housing. PIAC contends that they will in turn experience difficulty absorbing the proposed increases in the price of water. Many of these households also have limited discretionary water usage so have little capacity to reduce consumption and cushion the impact of rising prices. So too, inadequate savings mean they are unlikely to be able to escape price shocks by investing in new water saving appliances and equipment such as washing machines and water tanks.

The Central Coast is also home to a high quantum of caravan park residents who are unable to access pensioner water rebates when water is provided by residential park owners¹³. PIAC submits that they will be particularly adversely affected by water price hikes.

PIAC requests that IPART takes the abovementioned picture into consideration when determining the appropriateness of Gosford Council and Wyong Council pricing proposals.

4. Mitigation Measures

IPART asked Gosford Council and Wyong Council to detail existing and proposed measures to assist residents to adjust to price increases. PIAC was disappointed to discover that neither Council provided the information necessary to permit an assessment of the adequacy of such mitigation measures. It is noted that this is the second time this has occurred: IPART observed that both councils provided less information than IPART would have liked in their submissions for the 2006-2009 determination¹⁴. PIAC requests that IPART once again requests Gosford and Wyong to provide adequate information about existing and proposed support for customers experiencing hardship.

In spite of this lack of information, PIAC is aware of an inequity in the availability of social support to consumers across New South Wales. A number of programs are available to customers of Sydney Water and Hunter Water that are not extended to customers of water utilities owned and operated by local councils. PIAC thus concurs with Gosford Council's proposal for the development of a state based framework to address hardship issues and urges IPART to include such a recommendation in its final determination.

Until such a framework is implemented, low income and other disadvantaged residents of the Central Coast will require support from Gosford Council and Wyong Council to manage increased water bills. PIAC believes that councils must develop mitigation measures that include the following:

- Vouchers to assist customers experiencing financial difficulty to pay their water bills.
- Water audits to assist low income and large households with high water bills to reduce their water consumption.

⁹ Australian Bureau of Statistics, above n 6

¹⁰ Australian Bureau of Statistics (2008) *2006 Census QuickStats: Gosford* <www.censusdata.abs.gov.au> at 7 October 2008.

¹¹ Australian Bureau of Statistics (2008) *2006 Census QuickStats: Wyong* <www.censusdata.abs.gov.au> at 7 October 2008.

¹² Australian Bureau of Statistics (2008) *2006 Census QuickStats: New South Wales* <www.censusdata.abs.gov.au> at 7 October 2008.

¹³ Sean Ferns, *Park Residents should have access to Government funded rebate and relief schemes for water or electricity*, Park and Village Service, unpublished briefing paper at September 2008

¹⁴ Independent Pricing and Regulatory Tribunal (2006) *Gosford City Council, Wyong City Council, Prices of Water Supply, Wastewater and Stormwater Services From 1 Jul 2006 to 30 June 2009*, IPART, Sydney, 83.

- No Interest Loans Schemes that assist residents to purchase water efficient appliances like washing machines.
- Access to Centrepay so that residents can elect to have a small amount of their Centrelink benefits automatically allocated to pay their water bills each fortnight.
- Council membership of the Energy and Water Ombudsman so that consumers have access to a free and independent complaints service.
- Training for council staff to assist them to recognise and respond to customers in financial difficulty including dealing with customers in a sensitive manner, facilitating access to council social support, and referring customers to local community welfare organisations where appropriate.

PIAC is also concerned that the utility of the pensioner water rebate is declining on account of the \$87 cap for water and the \$87 cap for sewerage¹⁵. Acknowledging that the value of this rebate is prescribed by the Local Government Act, PIAC joins Gosford Council in requesting that IPART recommends an amendment to the Act to increase the pensioner rebate.

PIAC also notes that IPART recently recommended that the New South Wales Government evaluate Sydney Water's current and proposed social programs to ensure that appropriate measures are in place to assist vulnerable consumers to manage price increases¹⁶. With this in mind, PIAC urges IPART to recommend a review of the adequacy of programs available for residents of Gosford and Wyong.

5. Structure of water prices

5.1 Fixed and volumetric charges

PIAC rejects any moves to increase fixed water charges because high fixed charges deliver adverse social equity and water conservation outcomes.

Increasing fixed water charges means that households that consume a low volume of water will be forced to pay substantially more than was previously the case. As low-income households tend to be low water consumers they in turn bear a disproportionate burden of high fixed water charges.

By diminishing the opportunity for households to cut water bills, imposing higher fixed charges may also reduce incentives to lower water consumption and thus adversely impact upon water conservation. So too, increasing fixed charges disadvantages households who have already made investments in water saving technology such as rain water tanks.

PIAC understands that fixed charges have been deemed an efficient means of recovering the difference between average costs and marginal costs,¹⁷ but urges IPART to consider its obligations to both customers and ecological development, as per Section 15 of the IPART Act, and endeavour not to increase the fixed proportion of total water bills for residents of Gosford and Wyong.

¹⁵ Local Government Act 1993 (NSW) s 575.

¹⁶ Independent Pricing and Regulatory Tribunal (2008) *Review of prices for Sydney Water Corporation's water, sewerage, stormwater and other services from 1 July 2008 Determination and Final Report*, IPART, Sydney, 131.

¹⁷ Independent Pricing and Regulatory Tribunal (2008) *Review of prices for water, wastewater and stormwater services for Gosford City Council and Wyong Shire Council from 1 July 2009 Issues Paper*, IPART, Sydney, 35.

5.2 Scarcity Pricing

PIAC submits that the introduction of scarcity pricing would fail to promote both resident well-being and water security on the Central Coast.

Whilst scarcity pricing purports to reduce water consumption by increasing the price during times of limited supply, PIAC notes that many low-income earners have limited discretionary water use and thus little opportunity to reduce their consumption. As such, they have little choice other than to pay higher water bills. Already struggling with increased electricity, food, petrol and housing costs, many such households can ill afford this additional expense.

At the other end of the income spectrum, an increase in the price of water is unlikely to amend the consumption habits of high-income earners who are sufficiently well resourced to accommodate water price increases.

PIAC also submits that quarterly billing means the price signal on which scarcity pricing relies is unlikely to markedly reduce consumption.

It is also noteworthy that residents of the Central Coast are already paying for water scarcity. Gosford Council and Wyong Council have received and continue to seek approval for revenue to fund new and improved infrastructure and demand management initiatives to secure adequate water supply.

PIAC notes that both Gosford Council and Wyong Council rebuffed scarcity pricing in their respective submissions and requests that IPART also rejects this pricing structure.

5.3 Drainage charges

Wyong Council seeks permission from IPART to introduce a separate drainage charge¹⁸. Acknowledging that other water utilities including Sydney Water, Hunter Water and Gosford Council already have a drainage charge, PIAC accepts the legitimacy of this request.

However, there is concern about the amount of the proposed charge. The recent IPART price determination for Sydney Water approved a \$45 per annum charge for residential consumers¹⁹ whilst Hunter Water and Gosford Council have sought \$64²⁰ and \$66²¹ charges for 2009/2010 in their respective submissions to IPART. By comparison, it appears that Wyong Council is proposing a residential property base drainage charge of \$80 per annum²². PIAC deems this charge too high and requests that IPART approve a more reasonable drainage charge for local residents.

Acknowledging that Wyong Council currently recoups the costs of drainage services through water service charges and sewerage charges, PIAC submits that this more reasonable drainage charge should be offset by a reduction in the water service and sewerage charge. However, Wyong Council proposes to reduce its water service charge by just \$25.67²³ and its sewerage service by only \$39.68²⁴. That is, consumers will be worse off because Council proposes to impose a new separate \$80 drainage charge in place of \$63.35 in drainage charges currently recouped through the water service and sewerage charges. PIAC requests that IPART determines a new drainage charge commensurate with the reduction in water service and sewerage charges.

¹⁸ Wyong Shire Council, above n 2, 11.

¹⁹ Independent Pricing and Regulatory Tribunal, above n 15, 95-96.

²⁰ Hunter Water Corporation (2008) *Submission to IPART on prices to apply from 1 July 2009*, 117.

²¹ Gosford City Council, above n 1, 52.

²² Wyong Shire Council, above n 2, 14.

²³ Ibid 41.

²⁴ Ibid 43.

6. Initial increase

PIAC concurs with Gosford Council's proposal for a constant price increase over the period so that consumers experience incremental adjustments in their bills instead of large increases that have the potential to bring about added financial stress.

7. Carbon Pollution Reduction Scheme

Gosford Council seeks to pass through to consumers any additional costs incurred on account of the Carbon Pollution Reduction Scheme²⁵. PIAC rejects the notion of a complete pass through as it provides no incentive for monopoly water utilities to reduce their own carbon emissions. Instead, PIAC strongly suggests the costs of the scheme should be shared by councils and consumers.

In seeking to make a case for a pass through of Carbon Pollution Reduction Scheme costs, Gosford Council indicates that it expects to have to pay for its fugitive gas emissions. The Department of Climate Change Carbon Pollution Reduction Scheme Green Paper suggests that only the top 1000 emitters or those responsible for more than 25,000 tonnes of pollution each year will be required to purchase and submit permits to cover their emissions²⁶. PIAC deems it unlikely that Gosford Council will be amongst the worst 1000 polluters and in turn submits that Council will not incur these additional operating costs.

Gosford Council also suggests that the scheme is likely to increase its fuel costs. PIAC questions this claim based on the Australian Government's commitment to cut taxes to offset the impact of the Carbon Pollution Reduction Scheme on fuel prices during the first three years of the scheme²⁷.

PIAC also contends that a pass through should be rejected if the Australian Government determines to provide compensation to assist councils to manage increased costs on account of the Carbon Pollution Reduction Scheme.

8. Water restrictions

Wyong Council has suggested that it will ease water restrictions²⁸ and notes there is a 50 per cent chance that the system will recover to 47 per cent capacity by 2011 at which time they could be completely removed²⁹. Gosford Council makes similar observations about easing and eventually removing water restrictions³⁰. This comes in spite of an acknowledgement from Gosford Council that water restrictions have been an effective tool for reducing average demand³¹. It also follows surveys that suggest water conservation initiatives are amongst the top three most important services provided by Council and that 95 per cent of residents recognise saving water should be a high priority³².

PIAC supports water restrictions as an effective demand management tool and believes they play an important role in reducing the need for expensive capital investment. It is regrettable that Gosford Council and Wyong Council are each seeking funds to invest in expensive water supply infrastructure at the same

²⁵ Gosford City Council, above n 1, 39.

²⁶ Department of Climate Change (2008) *Carbon Pollution Reduction Scheme Green Paper*, Australian Government, Canberra, iv

²⁷ Ibid 16.

²⁸ Wyong Shire Council, above n 2, 26.

²⁹ Ibid C7.

³⁰ Gosford City Council, above n 1, C1.

³¹ Ibid 7-8.

³² Ibid 12.

time as they are overlooking the views of local residents and canvassing the prospect of removing water restrictions.

PIAC also makes the point that removing water restrictions not only eliminates the water conservation message to consumers but also undermines the lessons learnt through years of education programs.

9. Capital Expenditure

9.1 Capital Expenditure 2006-2009

As part of the 2006 determination, IPART established eight output measures for the Gosford and Wyong Joint Water Supply Authority. Seven projects were to be completed by the end of the current determination period and one was to have achieved substantial progress³³.

Acknowledging that there is still nine months to go in the current price determination period, PIAC is alarmed at the overall lack of progress by the Gosford and Wyong Joint Water Supply Authority. Thus far only three of the eight projects appear to have met the required output. Some of the projects are still in their infancy and others have been deferred³⁴.

It is PIAC's understanding that the 2006 water price determination was made on the assumption that these outputs would be met. That is, water prices were increased to allow Gosford Council and Wyong Council to collect revenue to enable them, amongst other things, to carry out these capital works. PIAC is concerned that residents have been paying for these projects to be completed over the course of the current determination and yet the bulk of work is still to be undertaken.

9.2 Projected capital expenditure

On account of the abovementioned lack of progress, PIAC questions the capacity of Gosford Council and Wyong Council to undertake the capital works proposed for the period ahead. PIAC notes that IPART commissioned consultants Halcrow/MMA and Atkins/Cardno have each previously expressed concern about the ability of each Council to achieve their forecast capital expenditure programs within the relevant determination period and that IPART itself has highlighted misgivings about Wyong Council's capacity to meet its proposed works schedule³⁵.

Wyong Council has also acknowledged that the construction sector is at or close to capacity and that this could mean tendered prices are in excess of estimates³⁶. PIAC posits that a contraction in the construction industry may impact upon the capacity of Gosford and Wyong Council to undertake all of their proposed capital works over the duration of the determination.

PIAC also notes that the construction of the Tillgra Dam in the Hunter, in conjunction with the existence of an agreement for the sale of water between Hunter Water Corporation and Gosford Council and Wyong Council, will improve water security on the Central Coast and may in turn moderate the need for all of the proposed capital works.

PIAC requests that IPART takes the abovementioned concerns into consideration in determining whether Gosford Council and Wyong Council have the capacity and need to deliver their proposed capital expenditure programs.

³³ Independent Pricing and Regulatory Tribunal, above n 17, 49.

³⁴ Gosford City Council, above n 1, 12-15.

³⁵ Independent Pricing and Regulatory Tribunal, above n 13, 36.

³⁶ Wyong Shire Council, above n 2, 34.