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Metropolitan Water Price Structure Review
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB POST OFFICE NSW 1230

Dear Sir/Madam

Submission - Review of price structures for metropolitan water utilities

I refer to IPART's invitation for submissions on matters raised within its Discussion Paper - *Review of price structures for metropolitan water utilities*.

As indicated in previous correspondence to IPART, the Councils have agreed in-principle to transfer their water supply authority functions, responsibilities, assets and staff to the newly formed Central Coast Water Corporation (CCWC) as at 1 July 2013, pending cost benefit analysis of the impacts on the community.

As water supply authorities, and shareholders in the CCWC, the Councils have considered IPART's discussion paper with regard to both the current and future operating environments.

Please find enclosed the Councils' response to IPART's Discussion Paper.

If you have any enquiries on this matter please contact Ms Elizabeth Knight on T: 4304 7042.

Yours faithfully

Stephen Glen
A/General Manager
Gosford City Council

Michael Whittaker
General Manager
Wyong Shire Council

Gosford City/Wyong Shire Councils' Response to IPART Discussion Paper

Review of price structures for metropolitan water utilities

Introduction

The Councils recognise the need for price structures to provide an appropriate balance between each of the criteria evaluated by IPART in this review, specifically:

- cost reflectivity
- equity between customers and customer impacts
- simplicity and ease of customer understanding
- administrative efficiency and transaction costs

The nature of pricing is such that trade-offs are often required between each of these criteria. For example, increasing the cost reflectivity of prices may reduce the simplicity and ease of customer understanding and also increase administrative costs. Thus, evaluation of price structures against these criteria needs to consider the relative and overall benefits to customers, rather than the individual merit of each criterion in isolation.

The Councils wish to emphasise the following implications of options considered in the Discussion Paper:

- aspects of various options within IPART discussion paper will increase billing complexities
- the current billing systems cannot accommodate some of these complexities
- additional costs will be incurred to modify and maintain the billing system to accommodate the proposed changes

IPART suggests that the Councils will be implementing new billing and information systems. However, there has been no formal decision for the Councils or the CCWC to implement new billing systems. It *may* be that each Council continues to bill customers in their LGA. Decisions regarding billing systems for the CCWC are dependent on other CCWC systems and approaches which are yet to be determined.

The Councils note that the NSW Government is currently reviewing eligibility for pensioner rebates and express support for a complete review of water and sewerage pensioner rebates.

Response to specific questions asked by IPART

1 *Should customers using the same services in similar volumes have the same price structure and pay similar amounts for their services?*

The Councils support price structures that provide an appropriate balance between cost reflectivity, equity, simplicity and administrative efficiency.

In principle, the Councils support the concept that customers using the same services in similar volumes should have the same price structure and pay similar amounts for their services. The concept provides for pricing equity, more cost reflective pricing and ease of understanding for customers.

However, this concept may increase administrative complexity. The Councils currently charge single dwelling residential properties a 20mm service charge. Multi-premise residential strata properties with a shared meter are charged a deemed 20mm service charge. Multi-premise residential properties that have a single owner (i.e. not strata title) and shared water meter are charged based on the size of their physical water meter. Charging each premise within a non-strata title property a deemed 20mm charge would require the collation and maintenance of additional data not currently held within billing systems.

Council provides the following comments regarding the specific multi-premise customer categories listed in IPART's discussion paper:

a. Dual occupancy dwellings, duplexes, community title dwellings and company title properties

Properties within these categories are currently charged in the same manner as other multi-premise properties by the Councils.

Of the four metropolitan water agencies, Gosford is the only one that charges community title dwellings a deemed 20mm charge. The other agencies (including Wyong) allocate a proportion of the meter size based charge to each dwelling. The Councils propose to continue with the current approach noting that any changes to the treatment of community title dwellings would affect very few customers.

b. Bed and breakfasts

Bed and breakfasts are charged like houses by all agencies as they are associated with dwelling houses. The cost of servicing a house with a bed and breakfast operation is not considered to be significantly different to servicing a residential domestic house. Bed and breakfasts should be treated in the same manner as houses. Any other charging approach would be administratively complex and of limited value.

c. Vacant land

For water services, the Councils currently charge vacant land the equivalent of a 20mm water service charge.

For sewerage services, Gosford charges the equivalent of a standard residential sewerage charge. Wyong charges 75% of a standard residential sewerage charge. It is noted that prior to the current Determination (2009-2013) Gosford's vacant land sewerage service charge was also 75% of the standard residential charge. It is not clear why this was changed in the 2009-2013 Determination.

If the Councils were to cease levying charges on vacant land, service charges for other customers would need to increase to maintain revenue neutrality. To maintain revenue neutrality, water and sewerage service charge would need to increase (on average) by approximately \$2.25 and \$7.20 respectively.

The Councils believe that vacant land should pay some form of a contribution towards the costs of network availability. Detailed analysis is required to appropriately determine the costs to be attributed to vacant land.

2 Do you believe that one of the follow[sic] basic price structures should be used in your network area:

Option 1 Leave price structures the way they are.

The Councils support the retention of the existing structure as it:

- is simple to understand and administer
- has relatively low administrative costs
- generally treats multi-premises in the same manner as free standing dwellings.

It should be noted that for multi-premise properties Gosford levies a deemed 20mm charge on strata properties only. Multi-premise properties with one owner are billed based on the size of their physical water meter(s).

Charging all multi-premises (not just strata properties) a deemed 20mm charge will increase administrative complexities and incur additional billing costs. The Councils would seek to recover any such costs from their customers.

Option 2 Charge all residential multi-premise properties (flats, units, townhouses, etc.) the same water and sewerage service charge as houses. Charge all non-residential multi-premise properties (strata units, shops and businesses in a complex owned by 1 person) standard 20mm non-residential water and sewerage service charges.

For the majority of Gosford and Wyong customers, this option is essentially the same as option 1.

However, a number of residential properties in Gosford currently pay a water service charge based on a physical meter size greater than 20mm. This includes, for example, retirement villages, properties owned by NSW Housing and other non strata multi-premise properties.

If these properties that are currently billed on their physical meter size were to be charged the 20mm service charge, the 20mm service charge would need to increase slightly to maintain revenue neutrality.

Option 3 Adjust the deemed meter size for residential houses and stand-alone 20mm non-residential properties to reflect average capacity demand, then charge all residential and non-residential customers by meter size.

This option would introduce additional administrative complexity without adding significant value for customers.

It is believed that this option would be more difficult to explain to customers than the current price structures.

It is unclear how a dwelling's 'actual average capacity demand' would be determined.

Option 4 Charge residential multi-premises dwellings a fixed percentage of the water and sewerage service charges that is charged on freestanding houses. Charge all non-residential multi-premise units and tenancies a fixed percentage of the non-residential stand-alone 20mm water and sewerage service charge.

This option would introduce additional billing administration complexities. Customers will find it difficult to understand this option and the rationale for it.

It is unclear what categories of property would be charged the proportional service charge e.g. would townhouses be charged a proportional service charge? Decisions regarding which property types should receive a reduced proportional service charge are likely to require a number of assumptions and will be continually contested by customers in the various categories.

3 *Should the sewerage usage charge be based on the marginal cost of collecting, transporting and treating a kilolitre of sewage, or on some other basis?*

The Councils support the principle of basing the sewerage usage charge on the marginal cost of collecting, transporting and treating sewage.

The Councils highlight below the effect that applying this principle is likely to have on residential and non residential sewerage bills. If the marginal price approach is adopted, transitional arrangements will be required to reduce price shocks.

A reduction in the sewerage usage charge from current levels to a charge of \$0.30 per kilolitre (an estimated marginal cost) would require an average increase in sewerage service charges of \$25 in Gosford and \$10 in Wyong to maintain revenue neutrality. Gosford service charges need to increase greater than those in Wyong as Gosford currently has a higher sewerage usage charge and higher billed sewerage usage volumes than Wyong.

4 *If some other basis on which to set the sewerage usage price is to be adopted, what is that basis and the rationale for it?*

The Councils do not propose any alternative basis for setting the sewerage usage price.