

**2005 REVIEW OF
METROPOLITAN WATER PRICING**

SUBMISSION OF WINGECARRIBEE SHIRE COUNCIL



**TO THE INDEPENDENT PRICING AND REVIEW
TRIBUNAL OF NSW**

**IN RESPONSE TO THE DRAFT PRICING
DETERMINATION FOR SYDNEY CATCHMENT
AUTHORITY RELEASED ON 17 JUNE 2005**

JULY 2005

**2005 REVIEW OF METROPOLITAN WATER PRICING PURCHASE OF BULK WATER FROM
SYDNEY CATCHMENT AUTHORITY BY WINGECARRIBEE SHIRE COUNCIL**

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EXECUTIVE SUMMARY

This submission provides information from Wingecarribee Shire Council to the Draft IPART determination which recommends an increase in the bulk water purchase price by a massive 46%.

Council regards the proposal to increase charges by 46% as unjustified and grossly inequitable. Council strongly requests that the increase be limited to no more than 10% and requests the opportunity to present its case at a public hearing.

The submission covers the following subject areas:

1. Existing Purchase Agreement For The Purchase Of Bulk Water
2. Bulk Water Usage
3. Factors to be Considered In The Pricing Of Bulk Water For Supply To Wingecarribee Shire Council
 - 3.1 Duration of Pricing Agreement
 - 3.2 Existing Riparian Rights
 - 3.3 Council should not have to pay for the costs of transferring water from the Shoalhaven Scheme to Metropolitan Sydney.
 - 3.4 Financial Burden of Increased Bulk Water Price
 - 3.5 Impact on Pensioner Rebates
 - 3.6 High Cost Associated With Supplying Water to Wingecarribee Shire Customers Compared To Metropolitan Water Authorities
 - 3.7 Water Quality
 - 3.8 Cost Increases and Lower Subsidies for Works that Benefit the Sydney Catchment
 - 3.9 Environmental Obligations and their Financial Impacts on Wingecarribee Shire Council
 - 3.10 Cost Shifting and Changes to the State Government's Country Towns Water Supply and Sewerage Program
4. Concluding Remarks

1. EXISTING PURCHASE AGREEMENT FOR THE PURCHASE OF BULK WATER

Wingecarribee Shire Council purchases bulk water from Sydney Catchment Authority under the Medium Term Price Path determined by IPART on 1 October 2000.

The Tribunal's 2000 determination is reprinted as **Attachment 1**.

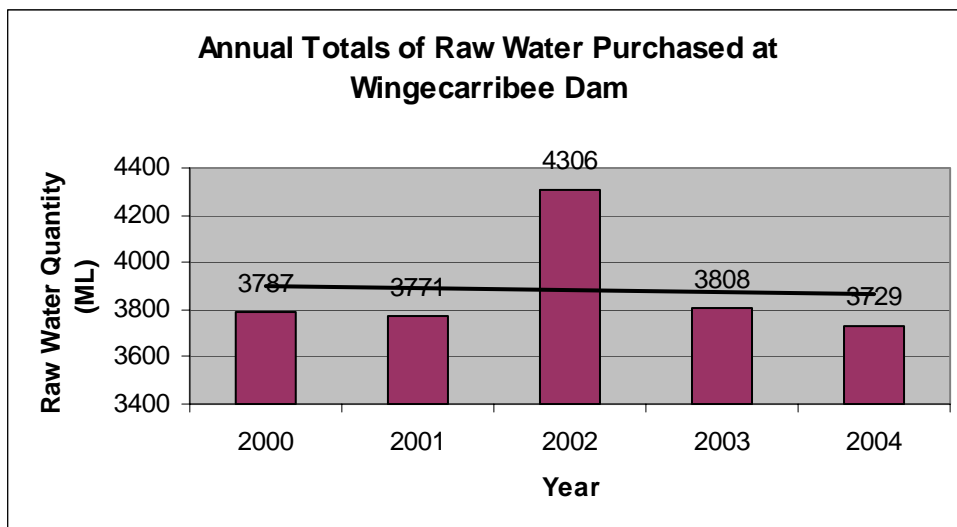
The current (1 July 2005 to 30 September 2005) volumetric charge to WSC is \$105.08.



2. BULK WATER USAGE

The bulk water usage by Council over the past five (5) calendar years is detailed in Table 1:

WINGECARRIBEE WATER FILTRATION PLANT	
Annual Totals (ML) of Raw Water	
Year	Raw water ML
2000	3787
2001	3771
2002	4306
2003	3808
2004	3729
2005 (to 30 April)	1017



Please Note: The figure for 2002 is unusually high for 2002 because the Wingecarribee supply was used to supplement the Medway Dam supply.

The average usage is approximately 3,900 ML. As Wingecarribee Shire has experienced a rate of population growth that is higher than that of Sydney for many years, the relatively stable demand represents a significant reduction in consumption per connection. This emphasises Council's responsible management of water resources.

3. FACTORS TO BE CONSIDERED IN THE PRICING OF BULK WATER FOR SUPPLY TO WINGECARRIBEE SHIRE COUNCIL

The following factors should be taken into account when considering any pricing structure for supply of bulk water to Wingecarribee Shire Council:

3.1 Duration of Pricing Agreement

Council believes that the new agreement should be for a duration of 25 to 50 years to ensure the long term supply of bulk water to Wingecarribee residents.

3.2 Existing Riparian Rights

The ownership of the Wingecarribee Dam site was passed from Council to Sydney Water's predecessor the Metropolitan Water Sewerage and Drainage Board (MWSDB) in about 1975, at no cost to the Board. The acquisition of this asset by the Board should be taken into account when assessing an appropriate charge for water usage by Council.

Prior to the 2000 determination, Council received 1,000 ML per annum free of charge from Sydney Water in recognition of Council's riparian entitlements. Whilst it is recognised that the 1 October determination removed this allowance, Wingecarribee Shire has been disadvantaged and it is appropriate that a lower rate per ML apply in Wingecarribee's case.

3.3 Council should not have to pay for the costs of transferring water from the Shoalhaven Scheme to Metropolitan Sydney.

A portion of the cost of bulk water supplied to Sydney Water relates to the cost of transferring water from the Shoalhaven Scheme to metropolitan Sydney. It is Council's understanding that its demand can be met from water collected in the Wingecarribee Dam catchment.

Accordingly, the water transfer system from the Shoalhaven River and the rest of Sydney's bulk water supply infrastructure are not relevant for supplying Council. Only a small fraction of the SCA's operating costs and physical infrastructure relate to the supply of bulk water to our water treatment plant at Wingecarribee Dam, Council should not be required to fund infrastructure for Sydney.

3.4 Financial Burden of Increased Bulk Water Price

Any significant change in the price for bulk water will have a marked impact on the current water charges that Council passes onto its customers. Council's water charges are already significantly higher than the state average and is striving to keep them affordable in an environment of cost shifting and significant reductions in funding from State Government.

Council purchases an average of 3900 ML per year from the Sydney Catchment Authority. Council currently pays \$105.08/ML for raw water, equating to approximately \$410,000 per annum. The draft determination increases this price to \$153.53 per ML, and an additional 10% increase each year afterwards. The initial increase is a massive \$190,000 in the first year.

The draft determination notes that the increase to Sydney Water is 17%. The 46% increase to Wingecarribee Shire is grossly disproportionate.

The draft determination comments on the size of this increase as follows:

The size of the initial increase is due to the Tribunal's draft decision to increase the volumetric charge to Councils to the same level as the volumetric charge to Sydney Water" (Page 5)

This statement does not appear to be adequate justification of the massive disparity between the rationale applied to Sydney Water and that applied to Wingecarribee Shire.

3.5 Impact on Pensioner Rebates

Wingecarribee Shire has a higher percentage of retiree population than other areas in the Shire. Any increase in the bulk water price is absorbed twice because Council also has to fund the Pensioner rebate.

3.6 High Cost Associated With Supplying Water To Wingecarribee Shire Customers Compared To Metropolitan Water Authorities.

The costs of supplying water to residents of Wingecarribee Shire are significantly higher per head of population and per kilometre of distribution main. This is supported by the annual comparison figures, and is largely due to:

- Low density of development
- High length of reticulation mains
- Low number of connections per kilometre

According to the 2003/04 New South Wales supply & Sewerage Benchmarking Report, Wingecarribee Shire Council has 33 connections per kilometre of main, compared to Sydney's 80 connections per kilometre.

It is appropriate that Wingecarribee Shire pays a lesser charge for bulk water than Sydney Water.

3.7 Water Quality

There is a significant threat to the quality of the water that can be supplied to Council from the Wingecarribee Reservoir caused by the collapse of the peat swamp upstream of the dam in 1998. Council has invested over \$1 Million in installing Dissolved Air Flotation and Powder Activated Carbon treatment systems to secure the quality of water supplied from the reservoir.

The risks associated with poor water quality in the Wingecarribee Reservoir are all additional costs to Council and should be reflected in a fair price for the purchase of bulk water from the Sydney Catchment Authority.

3.8 Cost Increases and Lower Subsidies for Works that Benefit the Sydney Catchment

Council's ability to fund upgrading works in the Sydney catchment are severely impacted by significant increases to the cost of capital works. The most recent example of this is the upgrading of the Bowral Sewerage Treatment Plant. The Department of Commerce's pre-tender estimate for this project was \$12.7 million. When tenders were called, the cost increased to \$16.1 million.

The increased cost of the project was \$3.4 million. Of this, State Government only funded \$100,000. Council is forced to fund the shortfall of \$3.3 million for a project that benefits the Sydney water catchment, under threat of breach of EPA licence.

3.9 Environmental Obligations and their Financial Impacts on Wingecarribee Shire Council

Wingecarribee Shire Council is investing nearly \$100 million in the protection of the Sydney catchment, with decreasing support from State Government. This financial burden on Council directly benefits the Sydney population and is an unfair burden on Wingecarribee Ratepayers. It should be reflected in a fair price for the purchase of bulk water from the Sydney Catchment Authority. The details of the financial impacts are outlined below:

3.9.1 Planning Considerations

The Wingecarribee Shire has always been recognised as a major catchment district which supplies drinking water for Sydney. There is now even greater pressure being placed on Council to protect this catchment, most of which comes at a cost to Wingecarribee Shire Council.

Although a substantial area of the Shire is covered by Special uses 5(c) Water Catchment Zone, where Land Use Applications must be referred to the Sydney catchment Authority for concurrence, development in any part of the Shire can impact on the Sydney Catchment. In recent years, Council has introduced a number of

planning initiatives aimed at protecting the rural landscape of the Shire, and accordingly, the Sydney catchment. These planning initiatives include the introduction of the 7(b) Environmental Protection Zone and the abolition of concessional allotments.

The Sydney water quality health concerns of the late 1990's resulting in the formation of the Sydney Catchment Authority.

The formation of this new authority has been followed by the introduction of new controls which are impacting financially upon Wingecarribee Shire.

These controls include:-

- ❖ State Environmental Planning Policy No. 58 – Protecting Sydney's Water Supply.
- ❖ Regional Plan Reparation to replace SEPP 58.
- ❖ Detailed water quality regulation to be administered by Local Government.
- ❖ Local Government (Approvals) Regulation 1999 – Management of Waste – On-site Sewerage Management Systems.
- ❖ Revised effluent discharge standards for the Shire's sewerage treatment works.
- ❖ Stormwater Management Plan.

Council would be pleased to quantify the additional costs it has been burdened with as a result of these environmental protection initiatives.

3.9.2 \$92 Million Sewerage Upgrading Program

Being the water and sewer authority for the Shire, Wingecarribee Shire Council is responsible for the management of five sewage treatment plants. Following the McClelland enquiry into the Sydney water contamination crisis, greater attention continues to be focused on the outer Sydney catchment which forms Wingecarribee Shire, again resulting in additional cost to Council.

Council is well advanced with a massive \$92 million program of upgrading of its sewerage infrastructure. These works include:

- | | |
|---|----------|
| • Augmentation of Moss Vale Sewage Treatment Works | \$6.5 M |
| • Construction of Mittagong and Northern Villages Sewerage Scheme | \$45 M |
| • Augmentation of Bowral Sewage Treatment works | \$16.1 M |
| • Construction of Robertson Sewerage Scheme | \$14.2 M |
| • Augmentation of Bundanoon Sewage Treatment works | \$10 M |

The \$92 M program demonstrates Council's substantial commitment to environmental protection. Much of this commitment is on behalf of the Sydney region as a whole, in protection of the Sydney catchment, and should be reflected in a fair and equitable price for the supply of bulk water from the Sydney Catchment Authority.

3.9.3 Increased Operation & Maintenance Costs

The operation and maintenance costs associated with the upgraded sewerage treatment works have been approximately 25-30% higher than the costs associated with the original plants. The progressive upgrading of the treatment works as per the above program results in significant increase in costs of sewer services to the Wingecarribee Community, all of which benefit the Sydney drinking water catchment.

3.10 Cost Shifting and Changes to the State Government's Country Towns Water Supply and Sewerage Program

Council is expected to deliver an extensive program of water supply and sewerage capital works in an environment of cost shifting and significant reductions in funding from State Government.

The ever increasing standards required of sewerage systems, particularly those located in the Sydney drinking water catchment, are placing Council's Sewerage Fund under great financial strain.

Despite past capital works subsidy, Council's average residential sewerage charge is considerably higher than that of Sydney Water (\$487 compared with \$328 in 2003/04). In addition, Council increased its sewerage charges by 5% in 2004/05 and is planning to increase them by 7% in 2005/06. The increases are necessary to fund projects that are of direct benefit to the drinking water catchment such as the Bowral sewerage augmentation.

The significant changes to the State Government's Country Towns Water Supply and Sewerage Program that impact adversely on Wingecarribee Shire Council are as follows:-

- A cut in the rate of subsidy for backlog works from 50% to 20% for Local Water Utilities (LWUs) with a combined turnover for water supply and sewerage greater than \$10 million per annum. (Backlog works generally involve the provision of water or sewerage systems to un-serviced towns or the proportion of upgrades to existing systems required that relate to pre-1996 demands.)
- A cut in the rate of subsidy for un-service towns listed in the Small Towns Sewerage Sub-Program to 50%. Previously, the rate of subsidy varied with the cost per property but would be expected to average around 65%. Towns in Wingecarribee Shire that were listed under this program are Robertson, Yerrinbool, Exeter and Burrawang.
- LWUs will become fully responsible for pre-construction activities and carry all the associated costs until the first construction contract for a project is awarded. All environmental and statutory approvals will need to be obtained before the Minister will make a commitment to fund a project by nominating a rate of subsidy.
- Once all tenders have been awarded, the Minister will review the offer of subsidy to a fixed dollar grant. Subsequently, Council will carry all the construction and cost overrun risks associated with the project.
- LWUs will also be responsible for making all payments to contractors and be required to resolve all land access and acquisition matters.

It appears that these changes will result in reduced subsidy for projects that benefit the Sydney Water Catchment by an amount of at least \$5 million (over the next 10-15 years) and add further costs due to the transfer of responsibilities. It is anticipated that subsidy for Council's planned water supply projects for un-serviced areas will be reduced by a further \$3 million.

All these impacts are imposed on Council without consideration of Council's ability to pay for projects that primarily benefit the Sydney water supply. Should Council choose to delay or fail to construct projects, it is threatened with litigation through the EPA licenses. A massive increase in the bulk water price is not justifiable in light of the reduced funding from State Government.

Con/t.....

4 CONCLUDING REMARKS

This submission outlines a number of factors that should be considered in any determination of a price for the supply of bulk water from the Sydney Catchment Authority to Wingecarribee Shire Council.

Clearly, the magnitude of the initial increase (46%) is grossly out of proportion to that proposed to Sydney Water (17%). There is no justification for this increase in the draft determination other than to state that the reason is to *“set the same water charge for bulk water supplied to Sydney Water, Wingecarribee Council and Shoalhaven Council” (Page 77)*.

This submission presents strong arguments to have a lower bulk water charge for Wingecarribee Shire than that applied to Sydney Water. It is clearly inequitable to require the residents of Wingecarribee Shire to contribute to the cost of augmenting Sydney's water supply when this is not required to meet local demand. In suggesting an appropriate bulk water price, Council **strongly requests that the annual increase should be maintained at no greater than 10%**.

There has been very little time afforded to Council to lodge a submission on this issue. IPART advised that an issues paper was released in July 2004, however this was not received by Wingecarribee Council. Shoalhaven Council advised that they also did not receive the July 2004 issues paper. Council only became aware of the draft determination by monitoring IPART's website in May 2005.

In addition, Council received no notification of the public hearings undertaken in March 2005. As Council has not been afforded the opportunity to attend a public hearing, Council requests the opportunity to do so and awaits advice from the Tribunal for a date for this hearing.

Attachment 1

IPART 2000 DETERMINATION

Extract

8.1.2 Tribunal's determination of prices to Wingecarribee

The Tribunal has modified the Catchment Authority's proposed level of charges to reduce the impact on Wingecarribee and its customers. The prices the Tribunal has determined for the supply of bulk water to Wingecarribee are shown in Table 8.2.

Table 8.2 Tribunal's determined prices for Wingecarribee

(\$2000/2001)	2000/01	2001/02	2002/03	2003/04	2004/05
Price to Wingecarribee (\$/ML)	60	68	77	86	94

The Tribunal has determined that:

- Wingecarribee's free allowance of 1,000ML is to be eliminated.
- an increased usage charge will be phased in over the regulatory period based on Wingecarribee's average cost per ML of \$51 in 1999, such that
- at the end of the regulatory period Wingecarribee's total per ML price will be consistent with the usage price paid by Sydney Water, after allowing for differences in water quality
- no access charge will be applied in this regulatory period.

In making its determination the Tribunal considered a number of factors, including:

- the Catchment authority's inability to advise the separate costs of supplying Wingecarribee
- eliminating the free allowance is consistent with other recent Tribunal determinations
- the agreement that had existed between Sydney Water and Wingecarribee covering the supply of bulk water with a free allowance of 1,000ML of water in compensation for the loss of Wingecarribee's own asset (dam) had recently expired
- Wingecarribee's claim regarding additional expenditure incurred in maintaining the catchment.

The impact of the Tribunal's determination would be an annual increase of about \$120,000 in total charges to Wingecarribee by 2004/2005.
