

Mr Colin Reid  
Director Water  
Independent Pricing and Regulatory Tribunal  
PO Box Q290  
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**6 October 2005**

Dear Mr Reid

I refer to your letter of 29 September 2005 requesting the Department's response to concerns raised in Gosford City Council's submission on pricing of backlog sewerage services in the Gosford area and inviting the Department to make a presentation at the public hearing in Gosford on 14 October 2005.

A submission from the Department of Energy, Utilities and Sustainability (DEUS) is attached.

The Department is pleased to accept the Tribunal's invitation to make a presentation and answer questions at the above hearing and nominates Mr Sam Samra as its representative.

Yours sincerely

Colin McLean  
Executive Director  
Water Systems



**DEPARTMENT OF ENERGY, UTILITIES AND SUSTAINABILITY**  
NEW SOUTH WALES GOVERNMENT

## **SUBMISSION**

**Independent Pricing and Regulatory Tribunal**

**PRICING OF BACKLOG SEWERAGE SERVICES**

**GOSFORD CITY COUNCIL**

**OCTOBER 2005**

## **1 Overview**

In view of substantial environmental and public health benefits to both the local and wider community (page 14 of Tribunal's Issues Paper), it is considered important to provide sewerage services to all of Gosford Council's 607 lots in the Priority Sewerage Program (PSP) in a timely manner.

As the residents in Gosford Council's PSP areas have not previously contributed to the Gosford Regional Sewerage Scheme, it is appropriate that they should meet a significant part of the capital cost of providing the services. However to make services more affordable to the residents, it is considered appropriate to spread the remainder of the capital cost of providing these services across the full Gosford sewerage customer base.

Such spreading of costs for the PSP areas in Sydney, Hunter and Wyong was adopted by the Tribunal in its Determination 4.1, 1997. Possible options for spreading part of the capital cost of service provision are discussed in Section 2 of this submission.

Section 3 of the submission addresses concerns raised in Gosford Council's submission of September 2005. In summary, if the Tribunal decides to spread part of the capital cost of providing backlog sewerage services across the full Gosford sewerage customer base, the resulting increase in sewerage bills would be approximately 1.2% and Council's eligibility for backlog sewerage funding under the Country Towns Water Supply and Sewerage (CTWSS) Program and for making dividend payments from its water supply and sewerage businesses would not be adversely affected.

## 2. Review of Pricing Options for Gosford PSP Areas

A comparison of several pricing options for Gosford backlog sewerage areas is provided in Table 1 below using Council's estimated capital contribution of \$12,800 for Mooney Mooney and Cheero Point on the basis of the Tribunal's Determination 4.2, 1997.

- Option 1 involves 50% of the cost under Determination 4.2
- Option 2 involves 67% of the cost under Determination 4.2
- Option 3 involves \$3,000 + 50% of the excess of Determination 4.2 over \$3,000

**Table 1 – Comparison of Backlog Sewerage Pricing Options**

	<b>Determination 4.2, 1997</b>	<b>Option 1  50% of Column (1)</b>	<b>Option 2  67% of Column (1)</b>	<b>Option 3  \$3,000 + 50% of excess of Column (1) over \$3,000</b>
	(1)	(2)  = 0.5 x (1)	(3)  = 0.67 x (1)	(4)  = \$3,000 + 0.5 [(1) - \$3,000]
<b>Required Capital Contribution (per lot)</b>	\$12,800	\$6,400	\$8,500	\$7,900
<b>Reduction in Capital Contribution (per lot)</b>	Nil	\$6,400	\$4,300	\$4,900
<b>Approximate Increase in Annual Gosford Sewerage Bill (per assessment)</b>	Nil	\$5.40	\$3.60	\$4.20
<b>(%)</b>	Nil	1.5%	1.0%	1.2%

For each option, Table 1 shows also shows the approximate increase in the annual Gosford sewerage bill over the next 20 years due to spreading the remainder of the capital over the existing Gosford sewerage customer base<sup>1</sup>.

Whilst Option 1 involves the lowest capital contribution per lot (\$6,400) and Option 2 the highest contribution (\$8,500), Option 3 is considered preferable as:

- It has greater alignment with the Tribunal's Determination 4.1, 1997 in that residents are required to meet the full cost up \$3,000 per lot.
- Residents meet 50% of the cost above \$3,000 per lot. This helps to make the capital contributions affordable for residents, whilst the requirement to meet a 50% share of higher costs helps to discourage use of inappropriately high service standards.
- The resulting increase in the Gosford sewerage bills over the next 20 years would be approximately \$4.20/assessment (1.2%).

However, as capital works projects have yet to be developed for Gosford PSP areas other than Mooney Mooney and Cheero Point, the relevant capital costs and the required capital contributions are not known at this stage. To ensure continuing affordability of backlog sewerage for these areas, it is suggested that the required capital contribution be limited to include only part (say 20%) of any calculated amount over \$8,000 per lot. Eg. if the calculated capital contribution for an area is \$13,000 per lot, the required contribution should be reduced to \$9,000 per lot ( $\$8,000 + (\$13,000 - \$8,000) \times 0.2$ ). Projects would need to be based on the least present worth cost option which meets public health and environmental requirements.

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<sup>1</sup> The approximate increases in the annual Gosford sewerage bills over the next 20 years shown in Table 1 have been pro-rated on the basis of the analysis in Page 10 of council's submission which indicates that a reduction of \$4,200 in the customer capital contribution for all lots in the Gosford PSP would require an increase the annual sewerage bill of \$3.56/assessment over the next 20 years.

The reduction in capital contributions of \$6,400, \$4,300 and \$4,900 for Options 1, 2 and 3 in Table 1 would require approximate increases in the annual sewerage bills of \$5.40, \$3.60 and \$4.20 respectively [Eg. for the \$6,400 reduction in Option 1, the approximate increase in the sewerage bills would \$5.40 (ie.  $\$3.56 \times \$6,400/\$4,200$ )].

As for Determination 4.2, it is expected the Tribunal would provide residents with the option of paying the required capital contribution as a lump sum or paying the corresponding sewerage special rate over the next 20 years.

### **3. Response to Concerns Raised in Gosford Council's Submission**

#### **3.1 Additional Project Costs include "other cost increases" (Page 3, 3<sup>rd</sup> para)**

It is important to note the 'additional project costs' referred to in the letter from the Minister for Energy and Utilities to the Tribunal include other cost increases, not related to subsidies. Council has estimated the other cost increases at \$3,000 per lot (refer to 3<sup>rd</sup> para on Page 6 of Council's submission).

#### **3.2 Backlog Sewerage Areas (Page 3, 4<sup>th</sup> para)**

Notwithstanding that the unsewered areas within the Priority Sewerage Program (PSP) are outside Gosford Council's existing sewerage service area, Council has a responsibility to facilitate timely provision of backlog sewerage services to these areas in view of the substantial environmental and public health benefits to both the local and wider community from provision of the services.

As noted in the 3<sup>rd</sup> para of Page 5 of Council's submission, the recent DEUS assessment found that inadequate sewage management poses significant health and environmental risks for Mooney Mooney and Cheero Point.

#### **3.3 Elimination of cross-subsidy funding methodologies (Page 8, 5<sup>th</sup> para)**

Gosford Council's interpretation of the *Best-Practice Management of Water Supply and Sewerage Guidelines*, May 2004 with regard to pricing and developer charges requirements is incorrect.

Gosford Council needs only to comply with the relevant IPART determinations in order to meet its obligations for the pricing and developer charges elements of the *Best-Practice Guidelines* [refer to footnote on Page 5 of the Guidelines]. Thus, providing Council complies with the IPART determinations, it would remain eligible for Country Towns Water Supply and Sewerage (CTWSS) backlog sewerage funding and for dividend payments.

**3.4 Introduction of a cross-subsidy due to reduction of charges for the backlog sewerage areas (Page 8, 1<sup>st</sup> dot point)**

In view of the ‘substantial environmental and public health benefits to both the local and the wider community’ noted in the Tribunal’s Determination 4.1 (refer to page 7 of the Tribunal’s Issues Paper), the Tribunal had determined a maximum capital contribution of \$3,000 per property for the areas in the PSP within Sydney, Hunter and Wyong. This determination involved spreading of the bulk of the capital cost of providing the PSP sewerage services to the existing customer base of these utilities.

Similar spreading of part of the capital cost is considered appropriate for Gosford Council’s PSP.

**3.5 Creation of inequity within the Gosford LGA (Page 8, 2<sup>nd</sup> dot point)**

1. With regard to Fishermans Parade, as the residents have already received their sewerage service under Determination 4.2, 1997, the matter should be regarded as closed [this comment also applies to the 3<sup>rd</sup> dot point on Page 9 of Council’s submission].
2. With regard to properties outside Gosford Council’s existing sewerage service area, only those properties within the PSP would be affected by any reduced capital charges that may result from a new IPART determination.
3. Developer Service Contributions would not be affected by a new determination as the determination would apply only to Gosford Council’s existing 607 lots in the PSP.

**3.6 Pricing of sewerage services outside the regional scheme area below cost will encourage unsustainable growth (Page 9, 2<sup>nd</sup> dot point)**

As noted in item 3.5 above, a new IPART determination for Gosford backlog sewerage would not apply to any lots outside the existing 607 lots in the PSP.

**3.7 Cost Implications of Tribunal Options (Page 10, dot points 6, 9)**

Council's analysis shows the minimal impact on existing sewerage customers of spreading \$4,200 of the additional cost per lot for backlog sewerage services across the full Gosford sewerage customer base:

- \$1.38 increases in the sewerage bill per assessment would be required over the next 20 years for the Mooney Mooney and Cheero Point backlog sewerage project. This would involve only a 0.4% increase in the present Gosford sewerage bill of \$364.
- \$3.56 increases in the sewerage bill per assessment would be required over the next 20 years for providing backlog sewerage to all 607 lots in the PSP. This would involve only a 1% increase in the present Gosford sewerage bill.

As noted in Section 2 above, a decision to spread costs of \$6,400 per lot (Option 1) or \$4,900 per lot (Option 3) would require increases in the annual Gosford sewerage bills over the next 20 years of approximately 1.5% and 1.2% respectively.