



December 21, 2004

The Chairman  
Independent Pricing & Regulatory Tribunal NSW  
PO Box Q290  
QVB POST OFFICE NSW 1230

Dear Sir,

SUBMISSION: METROPOLITAN WATER PRICING

This submission covers four (4) topics concerning Sydney Water as follows:-

1. **Vacant and Unconnected Property Charges** (IPART's Determination No.8, 2000 report section 5.5 and determination 4.1.3).
2. **Blue Mountains Septic Pump-Out** (SWC 2004 submission section 8.4.3, Appendix B & G pages 19, 60, 63-65).
3. **Pumping of Effluent** (SWC submission section 8.4.4, Appendix pages 60, 65-66) including **Priority Sewerage Program 'LPSS'** (SWC submission section 8.6).
4. **Minor Service Extension Methodology** (SWC submission Appendix page 20) including an **alternative proposal**.

**1. Vacant and Unconnected Property Charges**

The IPART Determination No.8, 2000, report section 5.5 agreed with SWC that charges for water and sewerage (but not stormwater) "should only be levied when services are used" and therefore the service charge for unconnected properties was determined at zero (4.1.3). I support this view but only for developer properties where the service has been provided and wholly paid for by a developer.

*I suggest the above determination be amended to provide that service charges be payable (a) for developer properties only when the service begins to be used, but (b) for properties where the service is provided, paid for or subsidised by SWC and/or CSO, the service charge be payable as from the time the service is available.*

This is justified as (b) above would be a prompt return on public funds, and it would also be an incentive for backlog properties to connect for the sake of the environment. It should apply to the backlog program in the Blue Mountains (see my topic 2 below) and simplify minor service extension calculations, if that policy continues (topic 4).

**2. Blue Mountains Septic Pump-Out**

SWC's submission section 8.4.3 and Appendix B & G pages 19, 60 & 63-65 recommend that:-

- The pump-out service and its subsidy be retained, - but the tariff restructured;
- There be a financial incentive for customers to connect to the sewer when available;
- In cases of hardship, a subsidy be granted for customers to connect to the sewer.

Among the facts given by SWC are:-

- There are 680 customers of which 90 have the sewer available but the latter have failed to connect, and this number may increase when 230 more lots are sewered;
- The subsidy for pump-out averages \$1,000 per property per annum;
- The service costs in total \$1.13m of which \$470,000 comes from customers' contributions and \$660,000 from CSO.

The reason given for the subsidy is that it encourages the use of the service so as to protect the environment as the area is within the Sydney water catchment.

Questions I would like answered are as follows:-

- How many properties within the Blue Mountains water catchment use on-site septic absorption, i.e. rather than being on the pump-out service?

- How many of the 680 customers are not within the water catchment e.g. drain northward, away from the catchment?

- How many of the 680 properties are holiday homes, i.e. are part-time occupied?

- Why have other properties in the Sydney water catchment area such as The Oaks/Oakdale never had a subsidised pump-out service? The current charge there is \$21.20 per kl; and for 250kl that would cost the customer \$5,300 p.a.

- Why must properties such as Brooklyn, adjacent to oyster beds, and other water front areas in Hornsby Shire pay \$19.80 per kl? Compare this to Liverpool also where the current charge is \$26.80 per kl.

In the Blue Mountains I note that on the current tariff the pump-out of 80kl p.a. comes to \$5.01 per kl; for 100kl it is \$5.83 per kl; 150kl is \$9.96 per kl; for 200kl is \$12.03 and for 300kl would be \$14.09 per kl. A normal amount of waste from the average household would be at the higher end of this scale, but as SWC points out, the revenue of \$470,000 means the average user is only being charged for 106kl per annum. This would suggest the users are limiting their volume to about 100kl for which they average only \$5.83 per kl, and are tempted to release the excess waste to the environment.

Clearly the subsidy structure is not effective, yet SWC is suggesting a contradictory solution. On the one hand SWC wants to increase the subsidy at the low-usage end but maintain or increase the charge at the high-usage end where the damage is probably occurring.

SWC is also suggesting that those customers who fail to connect to the sewer be transferred to a Council service which may charge \$20 per kl. This would probably make it worse for the environment.

It is also contradictory for SWC to deplore the subsidisation of services generally yet supporting it in the Blue Mountains even to the extent of advocating a fund to help cases of hardship to connect to the sewer. SWC has not advocated this elsewhere.

*I suggest it is time the subsidy for septic pump-out in the Blue Mountains be discontinued; alternatively that a similar (but better structured) subsidy be extended to all urban residential properties that are without reticulated sewerage services.*

*Also as set out in topic 1, if the sewerage service charge is payable as soon as the sewer is available that would be an incentive for most customers in the Blue Mountains and elsewhere to connect promptly and not use the pump-out service.*

### **3. Pumping of Effluent.....also Priority Sewerage Program**

This matter is covered by SWC submission 8.4.4 and Appendix G pages 60 & 65-66. SWC states that "in 1988 there were around 700 Sydney Water customers that were required to pump effluent to the sewer."(p.65) They paid only half the normal sewerage rate - referred to as a subsidy - and "as at June 2004 there were 310 customers that had been receiving the subsidy for 16 years."(p.66)

SWC proposes in section 8.6 that private pumping (LPSS) be approved as part of its Priority Sewerage Program (PSP), and all pumping connections be charged full rates.

There are details that SWC has not made clear-

- The waste that is referred to by SWC as 'effluent' includes raw sewage normally discharged into the sewers. This requires a macerating pump to deal with solids in the waste. Such pumps are more expensive than those that pump liquid effluent.

- In other systems the effluent is liquid having been through a septic systems, i.e. a primary on-site treatment, then held as liquid in a second tank before being pumped to the sewer main. The pump is cheaper but prices depend on the pressure required.

- The early systems usually had the latter type but SWC discouraged their use because the anaerobic effluent was acidic and the condensation in the sewer main corroded the pipes. SWC published photographic evidence of this.

- Nevertheless those customers who were permitted to pump were charged only half the normal sewerage rates because (a) the connection involved little if any incremental cost for SWC, (b) the customer met the cost of the system and its maintenance, and (c) it was regarded as a second rate substitute for normal gravity sewerage.

- SWC issued onerous instructions for customers to undertake frequent cleaning and maintenance of the tanks and equipment - a requirement that has since been quietly forgotten.

From 1988 SWC began to advocate private pumping as “an acceptable alternative” to normal gravity sewerage. It was left to the customer to choose between a one-tank system with macerating pump, or the two-tank system for pumping liquid.

- In some cases the pumping connection is into a gravity main, but in others must pump into a rising main and this may involve pumping against considerable pressure.

- Also since 1988 SWC charged full rates for new connections by private pumping. The 700 customers already paying half rates continued to do so but they are now reduced to the 310 that SWC refers to because as properties are transferred the new owner is charged full rates. SWC now wants to charge all of them the full rate.

#### Customer resistance to the private pumping option

In most cases of which I am aware the customers resisted SWC's proposal to provide a high level main to which private pumping was necessary. The system was costly for customers to install, and is costly to maintain; and it is a second rate system.

Since 1988, in the following areas the property owners resisted and finally achieved gravity sewerage instead of pumping:- Sandy Point (about 90 lots) Terrey Hills (c.300) Whale Beach (27) Bungan Beach (70) Prince Alfred Pde, Newport (12) Delta Pl, Sutherland (13) Bonnet Av., Como (11). At both Kingfisher Cr., Grays Point (32) and Cabarita Rd, Avalon (7) after a high level main was provided, the customers refused to connect and a gravity system was then provided.

In other cases it would appear that the terrain made a gravity system impossible and connection by pumping was reluctantly accepted. These areas include:- Moons Av., Lugarno (32) McCarrs Creek Rd, Church Point (c.120) Riverview Rd. Avalon (c. 40) Kangaroo Point, Sylvania (32) Yacht Bay, Longueville (15).

SWC does not mention that pumping connections since 1988 are charged full rates. SWC's proposal to charge full rates does not distinguish between customers who provide their own system and those who will have the system supplied and maintained by SWC.

#### **'Priority Sewerage Program' and LPSS**

I believe the area SWC currently has in mind for a low pressure sewerage system (LPSS) i.e. private pumping, is Jamberoo, one of the PSP. SWC is prepared to supply the equipment, install it and maintain the system as detailed in section 8.6. This could be the forerunner for other PSP projects with LPSS.

It should be made clear whether SWC will supply replacements such as pumps which seem to fail after about 6 to 8 years. SWC seems to believe the LPSS will be a cost effective system at Jamberoo and possibly other village areas on the priority backlog list. With more than 300 individual systems at Jamberoo I doubt it will be cost effective for SWC over time.

*I suggest that where SWC intends to provide a sewerage system to which property owners can only connect by individual pumping the proposal be first put to an arbitrator to decide whether such a service is a reasonable alternative to normal gravity sewerage under the circumstances.*

*I also suggest that in all cases where a connection to the sewer is made by private/individual pumping and (a) the equipment has been paid for, installed and/or maintained by the property owner the sewerage service charge be half the normal rate, but (b) where the cost of the system, its replacement and maintenance is met by SWC, the normal service charge i.e. full rates, be applied.*

#### **4. Minor Service Extensions Methodology.....and an alternative proposal**

I refer to Decision 8 of IPART's Determination No.4, 2003, section 7.8 under the heading 'Minor Service Extensions Charges'. In SWC's Appendix B page 20 SWC "does not intend to request any changes for the next pricing period."

*I suggest this Decision be revoked and a new approach be adopted for the following reasons:- (Note I have had correspondence with IPART on this matter dated June 11 and July 17, 2004.)*

(a) The concept of the methodology is flawed.

The purpose of the methodology is to calculate a subsidy for water and/or sewerage extensions. The subsidy is the NPV of the rates that will be paid up to 30 years discounted @ 7%. This means the rates paid up to 30 years are appropriated as a capital contribution ignoring the fact that the major part of the rates are required for operating and maintenance expenses. This fallacy is more apparent in the methodology for water service extensions which includes a charge for an estimated usage of 250kl p.a.. Water usage as a capital item!

(b) The methodology is inequitable among property owners.

Where the construction cost exceeds the subsidy, as it usually does, IPART requires the contribution to be divided "by the number of equivalent domestic properties.."etc. In a worked example provided to me by SWC they cite 3 property owners. If all of them connect when the service is available they contribute equally. However if 2 pay and connect immediately, but the 3rd is expected to wait for 5 years, then the subsidy is reduced and all 3 are placed at a disadvantage. (And who provides the crystal ball to determine when the 3rd owner will pay?)

A further disadvantage for the 2 early contributors is that the number of contributors is discounted so that the total contribution is divisible by 2.763 not by 3. The late contributor must also cover the CPI over the years before he/she contributes.

(c) The process is impractical to implement.

In IPART's Determination section 7.8 (last paragraph) "the Tribunal requires Sydney Water to provide details on an ongoing basis on each occasion when this methodology is used..."etc. However in Appendix B page 20 SWC intends to supply what appears to be its own summary which I doubt would meet what IPART "requires".

Under FOI I have obtained a list of 10 projects under the methodology up to June 2004. Eight (8) are for 1 lot each, 1 is for 2 lots and 1 is for 7 lots (the last being a very contentious one). From July to September another 3 projects cover 1 lot each.

SWC does not mention a project near completion at Casula for 22 homes plus some vacant lots. The homes will cost about 3 times the amount of the subsidy but no contribution from the owners will be required because the original estimated cost of the project was less than the subsidy. SWC had therefore undertook to provide sewerage free of contribution under the Minor Extensions Policy. This illustrates (as the 1987-1999 Backlog Sewerage Policy did) how impractical it is to use estimated costs instead of actual costs. (Estimates for esteemed customers seem to be the most unreliable.)

As part of the above Casula project SWC has offered the owners of 40 vacant lots to provide sewerage with a subsidy under the methodology. This illustrates the need for a proper distinction between backlog/developed properties and vacant land. At present there is no definition of a minor extension, nor where the methodology applies.

SWC recognises only 3 classifications:- (1) Developers, (2) PSP stages 1 & 2, and (3) all the rest to which the methodology will be applied including about 3,700 properties ranked A and B priority which IPART ruled would be contribution free.

#### **An alternative proposal**

(Note my correspondence with the Minister's office dated February 2, 2004 on this proposal was referred by the Minister to IPART.)

There needs to be a distinction between those backlog property owners who have a long wait (say 10 years or more) before they get the sewer, and those who own a backlog property for a relatively short time before the sewer is made available. The reason for this distinction is that the longer owners wait, the more it has cost them to maintain a septic system, especially a pump-out system; also there are social and environmental disadvantages in being deprived of proper sewerage in an urban environment.

#### **WHO should pay for sewerage, HOW MUCH, and WHEN do they pay?**

*I suggest:-* If a person owns a backlog property for 10 years or more up to the time the sewer is made available, they should be exempt from making a contribution for the capital cost.

- Where the backlog property has been owned for less than 10 years before the sewer is made available, the owner should pay their share of the cost of the project but have 10% deducted from that share for each year of ownership prior to the sewer.

- That contribution would be recorded against the property and be paid out of the proceeds of the eventual sale of the property (at the time of settlement as any other arrears are met) plus an adjustment for the CPI as from the date the contribution is

calculated. An owner may pay the contribution at any time rather than wait for the sale of the property.

- Note, the customer would pay rates from the time the sewer is available, whether they connect to the service or not, (see topic 1) and would not be prevented from using the service simply because their contribution is outstanding. There would be no 'methodology'. The contributions would be based on actual cost, not on estimates.

- Note also, this concept would determine who should contribute for the cost of sewerage irrespective of priority ranking, priority being a separate consideration. As most properties are sold once at least every 10 years this proposal would raise more contributions for sewerage purposes than the current backlog or extensions policies.

#### Deceased Estates

For the purposes of this proposal, where a property is transferred to a beneficiary, - such cases usually being to a widow or family member - the ownership should be deemed to be continuous for the purposes of determining the 10 year qualifying period.

#### Vacant Land

By definition, vacant land is not backlog property. If SWC provides sewerage to vacant land as part of a backlog project, the owner should be due to pay their full share of the project cost irrespective of the length of ownership because they have not had to provide alternative septic systems. The owner would make their payment (1) when a development approval is granted, or (2) if sold while still vacant, would be paid on settlement of the sale. These contributions would be adjusted for the CPI, calculated from the time the sewer is available.

#### Justification

- Those owners, especially retirees, who are unwilling or unable to pay will have their contributions (if any) deferred until they are cashed-up, i.e. when the property is sold.
- All contributions are based on actual costs, not on estimates; and would be transparent.
- The contributions are applicable irrespective of priority ranking, which is a separate issue.
- Contributions would be more equitable, and raise more funds than under present policies, thus accelerating the backlog program.

I thank you for your consideration of this submission.

Yours sincerely,

Walter Wood