

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

REVIEW OF GOSFORD CITY COUNCIL'S AND  
WYONG SHIRE COUNCIL'S PRICES

Tribunal Members

Dr Peter Boxall, Chairman  
Mr James Cox, CEO  
Mr Simon Draper, Part-Time Member

Members of the Secretariat

Ms Amanda Chadwick and Ms Lucy Garnier

At the Quality Inn,  
The Willows, 512 Pacific Highway, Wyoming

On Monday, 12 November 2012 at 10.00am

.12/11/20121

Transcript produced by Merrill Corporation

---

1 OPENING REMARKS

2  
3 THE CHAIRMAN: Welcome, and thank you all for coming to  
4 this public hearing being conducted by the Independent  
5 Pricing and Regulatory Tribunal into water, sewerage and  
6 stormwater prices for Gosford City Council and Wyong Shire  
7 Council.

8  
9 First of all, I would like to introduce myself. I am  
10 Peter Boxall. I am the chairman of IPART. On my right is  
11 Jim Cox, who is the chief executive officer and the  
12 full-time member and on my left is Simon Draper, who is a  
13 member of the tribunal.

14  
15 IPART last conducted a review of Gosford City  
16 Council's and Wyong Shire Council's prices during 2008.  
17 The current pricing determinations cover the period from  
18 1 July 2009 to 30 June 2013.

19  
20 This investigation being conducted by IPART will cover  
21 a period commencing from 1 July 2013. The tribunal has not  
22 yet decided on the length of the determination period and  
23 we are open to suggestions in this regard.

24  
25 As part of this investigation, we released an issues  
26 paper in June 2012 which set out key aspects of the review  
27 process. Our issues paper outlines some of the matters we  
28 consider important to this review, our general approach to  
29 price setting, the matters we must take into account under  
30 the Act when conducting an investigation, and a draft  
31 timetable for the review.

32  
33 In the issues paper, we called for submissions from  
34 both councils, their customers and other stakeholders. The  
35 tribunal is very appreciative of those who have taken the  
36 time and made a submission to the review. Some of those  
37 stakeholders will be presenting today. All of the  
38 submissions we have received will be considered in  
39 developing our findings and recommendations.

40  
41 The current review raises several issues of  
42 significance for the community and the tribunal. Over the  
43 last determination period, Gosford City Council and Wyong  
44 Shire Council overspent their allowed operating  
45 expenditures. For the 2013 determination period, both  
46 councils are proposing operating expenditures that are  
47 higher than the allowed and the actual expenditures over

1 the previous determination.

2  
3 The proposed operating expenditures are driving much  
4 of the proposed price increases. Included in the operating  
5 expenditures going forward are the costs associate with the  
6 establishment of the Central Coast Water Corporation.

7  
8 It is part of our role to scrutinise the operating and  
9 capital expenditure proposal, to assess whether the costs  
10 are justified and efficient and whether they should be  
11 passed through to customers. This hearing provides an  
12 opportunity for the tribunal to hear from the councils,  
13 their customers and other stakeholders and to question the  
14 proposals put forward.

15  
16 IPART has engaged independent consultants to provide  
17 assistance on the prudence and efficiency of the councils'  
18 forecast expenditures. The findings of our experts as well  
19 as the views of all stakeholders will be key inputs into  
20 our decision-making process.

21  
22 The councils' submissions and other stakeholders'  
23 submissions are available to the public through our  
24 website. The transcript of the proceedings will also be  
25 available on our website in the next few days, along with  
26 the consultants' reports once they are finalised.

27  
28 Before we commence proceedings today, I would like to  
29 say a few words about process. The agenda for today's  
30 hearing indicates the order in which stakeholders will be  
31 presenting. Each speaker has been allowed time to make a  
32 presentation. Following each presentation, the IPART  
33 secretariat will ask a series of questions of each  
34 stakeholder. A short period is then allocated for any  
35 questions from the floor. I ask presenters to stick to the  
36 allocated time.

37  
38 Assisting the tribunal today are two secretariat  
39 members, Amanda Chadwick, the director, and Lucy Garnier,  
40 program manager. At the conclusion of all scheduled  
41 presentations, I will make further time available for  
42 members of the public to express their views and opinions  
43 on the proposals that have been put before us. When you  
44 get up to speak, there will be a roving microphone. Please  
45 state your name and the organisation you represents and are  
46 associated with.

47

.12/11/20122 PRICE REVIEW

Transcript produced by Merrill Corporation

.12/11/20123 PRICE REVIEW

Transcript produced by Merrill Corporation

1 Today we will commence have a short presentation from  
2 Lucy Garnier from IPART and we will then a presentation  
3 from the councils. Thank you, Lucy.

#### 4 OVERVIEW

5  
6  
7 MS GARNIER: I prepared a few slides this morning to show  
8 the past 10 years of Gosford's and Wyong's bills and their  
9 expenditures so that we can see the trends over the past  
10 years.

11  
12 The first slide shows an average residential water and  
13 sewerage bill in the Gosford and Wyong areas and it  
14 compares it to the CPI, which is the indicator we use for  
15 the set basket of goods that the people buy. As you can  
16 see, both Gosford's and Wyong's bills have risen higher  
17 than the CPI, and the dotted lines at the end are what is  
18 proposed over the next determination period.

19  
20 Underlying those bills is operating expenditure.  
21 I will look at Gosford first. They have spent more than  
22 their determined operating expenditure in every year since  
23 2003/2004. The green columns are what the determination  
24 allowed and the blue one are what was actually spent. Then  
25 the slightly lighter blue columns towards the right of the  
26 slide show what Gosford is proposing to spend over the next  
27 determination period.

28  
29 In terms of capex, it is not so obvious. Just by way  
30 of explanation, the 2009/10 year and the 2010/11 year  
31 included quite a lot of expenditure for Mardi to Mangrove,  
32 which explains those peaks. The average expenditure in  
33 2010/11 and 2011/12 is about over the last determination  
34 period and, over the whole period, it is about \$70 million,  
35 which is about 30 per cent over their determined capital  
36 expenditure.

37  
38 The proposed capital expenditure exceeds previously  
39 determined levels, but is similar to levels prior to  
40 2009.

41  
42 Moving on to Wyong, again its allowed operating  
43 expenditure has increased in every year since 2003/04.  
44 I say these are normalised dollars. Wyong Council has  
45 overspent in each of those last 10 years and it is  
46 proposing that its operating expenditure will continue to  
47 increase over the next determination period.

.12/11/20124 PRICE REVIEW

Transcript produced by Merrill Corporation

1  
2 So capex for Wyong, again, the 2009, 2010 and 2011  
3 years include Mardi to Mangrove. Wyong is different from  
4 Gosford in its capital expenditure. It has actually  
5 underspent by about 30 per cent, and it is actually  
6 expecting higher levels of capital expenditure than it has  
7 actually delivered, on average, over the last ten years,  
8 including the Mardi to Mangrove expenditure.

9  
10 We will move on to what we see are the key issues.  
11 I think the main issue is the transition to the Central  
12 Coast Water Corporation and how we deal with that and that  
13 the costs align with the prices. Given the magnitude of  
14 the proposal by the councils, a key issue for us to  
15 consider is the customer impacts of the proposed price  
16 increases. There are some outcomes of the cross-agency  
17 price structures review that may need to be incorporated  
18 into the determination and there are continuing water  
19 transfers between Hunter Water and Central Coast.

20  
21 We will have the public hearing for the developer  
22 charges aspect of the councils' charges this afternoon, but  
23 there is an interaction with periodic charges given that  
24 the revenue for those developer charges interacts with the  
25 revenue received the other types of charges, so we need to  
26 be mindful of how those two determinations interact.

27  
28 THE CHAIRMAN: Thank you very much, Lucy.

29  
30 The first presentation we have on the agenda is from  
31 Gosford City Council.

#### 32 GOSFORD CITY COUNCIL

33  
34  
35 MR GLEN: Thank you, Mr Chairman. Stephen Glen is my name  
36 I am the acting general manager of Gosford City Council.  
37 Supporting me, and seated to my right, is Elizabeth Knight,  
38 who has been instrumental in preparing the submissions and  
39 the information provided to the tribunal to date.

40  
41 Ladies and gentlemen, in my presentation, I would like  
42 to, talk about several things. The first item I am going  
43 to talk about is obviously the current pricing period that  
44 concludes next year and what we have achieved in the  
45 existing tribunal determined period. I do want to briefly  
46 touch on the Central Coast Water Corporation as well.  
47 I will be going through the operating dollars and the capex

.12/11/20125 PRICE REVIEW

Transcript produced by Merrill Corporation

1 for the current determination as well as the income pricing  
2 period. I will also talk a little bit about the next  
3 pricing period.

4  
5 I wish to talk a little about Gosford City Council's  
6 system. Obviously we harvest, treat and deliver safe  
7 drinking water - that is a no-brainer; that is what we are  
8 here to do. We provide and treat the water for our  
9 community. We also collect sewage, treat that and then  
10 dispose of the sewage, as is appropriate to protect public  
11 health and also the environment. Also, as a water  
12 authority, we collect, transport and dispose of stormwater  
13 across an area of approximately 1,000 square kilometres in  
14 a safe and environmentally sound manner.

15  
16 For the current period, Mr Chairman, at the start of  
17 that period, I think the drought had broken at that stage.  
18 I think the drought broke in 2006/2007. So after ten years  
19 of restrictions, we are now into the Waterwise period where  
20 we have seen the lowest level of water usage by our  
21 customers. We have seen an increase in the water storage  
22 levels over this period as well, particularly with the  
23 Mardi to Mangrove pipe link, and we are seeing the  
24 additional water go up into our major dam. This has  
25 allowed the progressive easing and reduction in our  
26 restrictions and, as I indicated, down to the Waterwise  
27 rules.

28  
29 Current storage levels are just below 50 per cent and  
30 well above the 12 per cent, which was the lowest level that  
31 we got to during the drought. In adopting the Waterwise  
32 rules, we do encourage a commonsense use of our precious  
33 resource and to ensure conservation whilst giving the  
34 residents and the businesses flexibility that they did not  
35 have under the water restrictions. It is to also honour  
36 the contract that the council had with the community that,  
37 as the water storage levels got to a certain percentage, we  
38 would then make those reductions.

39  
40 The Mardi-Mangrove link is a \$120 million project  
41 primarily funded by the federal government with an \$80m  
42 grant. The \$40 million is split between the two councils -  
43 so \$20 million each. The project allows greater volumes of  
44 water to be transferred from the Wyong River and ultimately  
45 up into Mangrove Creek Dam. This has helped to increase  
46 the water storage in the Mangrove Creek Dam. The project  
47 is a joint initiative between Gosford City Council, Wyong

.12/11/20126 PRICE REVIEW  
Transcript produced by Merrill Corporation

1 Shire Council and also the Australian government, as  
2 I indicated.

3  
4 Expanding sewerage services: council has provided an  
5 additional 230 properties in the Cheero Point and Mooney  
6 Mooney area with the ability for those residents to connect  
7 to a scheme. As of September, about 65 per cent of the  
8 properties were currently connected to that scheme.  
9 The project was undertaken as part of the priority sewerage  
10 program and it received funding from that program as well  
11 as the New South Wales country town water supply and  
12 sewerage program.

13  
14 We have also done extensive work at our treatment  
15 works. Major refurbishment at Kincumber and Woy Woy  
16 sewerage treatment and facilities has been undertaken to  
17 maintain the efficiency, to mitigate odours and also to  
18 ensure regulatory compliance. Key components include the  
19 upgrade of the bio-solids handling and storage systems. We  
20 have renewed the inlet waterworks at Kincumber and also new  
21 odour control facilities which include fine bubble aeration  
22 of our major tanks. The upgrades are a component of the  
23 pollution reduction program contained in the council's  
24 environmental protection licence issued by the EPA.

25  
26 With the sewerage pump stations as well - we have 182  
27 of these pump stations - we are going through a program of  
28 renewing to minimise overflows and also to protect the  
29 environment and to ensure the appropriate public health  
30 outcomes. Council has completed the upgrade and  
31 refurbishment of over 20 sewerage pump stations to minimise  
32 these risks. The renewal program aims to reduce overflow  
33 risk by the provision of increased storage, to reduce the  
34 odours through better ventilation and treatment, improve  
35 reliability of electricity supply, telemetry, mechanical  
36 components and create a safer workplace as well for those  
37 who operate the pump stations.

38  
39 Mr Chairman, we have also become a member of the Energy  
40 and Water Ombudsman NSW. This took place in January  
41 2010. Since joining this organisation, a total of 37  
42 matters about Gosford City Council have been referred to  
43 EWON. This is a low rate per 1,000 properties, but it has  
44 provided an avenue for fair and independent arbitration for  
45 those customers who have used the service.

46  
47 The Central Coast Water Corporation: I have some

.12/11/20127 PRICE REVIEW  
Transcript produced by Merrill Corporation

1 dates on that slide, Mr Chairman, which indicate the  
2 progress to date, starting off in 2010. There is a lot of  
3 history prior to these dates, but these are the more  
4 immediate dates. First is the memorandum of understanding,  
5 where councils agreed to establish a Central Coast Water  
6 Corporation subject to amendments to the Central Coast  
7 Water Corporation Act and also the industrial relations  
8 framework.

9  
10 In November 2010, those amendments to the Central  
11 Coast Water Corporation Act were enacted and in July 2011,  
12 the Central Coast Water Corporation commenced. The board  
13 of directors took some time to get on board with final  
14 approval from the state government in December 2011.

15  
16 Mr Chairman, as part of the memorandum of  
17 understanding, a cost benefit analysis needed to be  
18 undertaken. That cost benefit analysis needed to be  
19 undertaken within 15 months of the creation of the Central  
20 Coast Water Corporation. The Water Corporation was in fact  
21 created in February 2011, so that gave us till May of 2012  
22 to satisfy that requirement of the memorandum of  
23 understanding.

24  
25 To the end of May 2012, both Gosford City Council and  
26 Wyong Shire Council approved the cost benefit analysis that  
27 was undertaken by PricewaterhouseCoopers. There were  
28 various models looked at within the CBA and the two  
29 councils have adopted a model N, which looks at a long-term  
30 leasing arrangement.

31  
32 Also as part of the memorandum of understanding,  
33 within 60 days of the adoption of the CBA, there was also  
34 a need to adopt an implementation work plan. That, in  
35 fact, was undertaken towards the end of the CBA and was  
36 adopted by the two councils at various meetings at the end  
37 of June 2012.

38  
39 So we do have a cost benefit analysis and the councils  
40 did adopt that cost benefit analysis with a couple of  
41 conditions attached. One of them was that there were to be  
42 no redundancies with those people moving across to the  
43 Water Corporation. It is not just those people moving  
44 across to the Water Corporation, but it is also those  
45 people who may be affected by the transfer of staff to the  
46 Water Corporation. So it was adopted along those lines and  
47 we have moved forward in that direction.

1  
2 The operating model: there are two key dates that  
3 come out of the operating model. The first key date is  
4 1 July 2014 and the second date is 1 July 2017. The first  
5 date, 1 July 2014, is the date where parts of the water  
6 business are to be transferred across to the Water  
7 Corporation. They are the asset and regulatory functions  
8 that move across out of the Gosford City Council area into  
9 the Water Corporation. By 1 July 2017, the Water  
10 Corporation will be fully operational.

11  
12 Mr Chairman, I should have mentioned that as part of  
13 the CBA, one of the major outcomes in a successful water  
14 corporation was the establishment of a joint services  
15 business. We refer to it as a JSB. The JSB is an  
16 organisation between the two councils where services that  
17 are shared between the two councils will provide the  
18 back-of-room functions to the Water Corporation. They will  
19 also provide the services back to the councils. So the  
20 councils have been working very, very diligently in setting  
21 up the JSB in preparation for 1 July 2017.

22  
23 On the board, Mr Chairman, you will see that there are  
24 four main areas, four corporate enablers, that have been  
25 listed and they are: IT, HR, finance, plant and fleet.  
26 Those are the four areas at this stage that are currently  
27 being looked at for inclusion into a JSB.

28  
29 As I said, model N is a long-term lease model whereby  
30 the corporation will enter into arrangements with the two  
31 shareholders to lease the assets.

32  
33 Total operating expenses: the colours are the same  
34 as in front of me. You have the blue, which is the  
35 IPART-determined expenditure. The green represents what  
36 has been spent by council. As was alluded to earlier, you  
37 can see that council has spent more than was allocated by  
38 IPART. These additional cost have been associated with  
39 such things as energy increases, particularly electricity,  
40 sludge management, landfill disposal costs, reactive  
41 maintenance due to wet weather, water-main breaks, sewage  
42 overflow management and reporting and, in the last six  
43 months, the Central Coast Water Corporation.

44  
45 With respect to capex, ladies and gentlemen, again, a  
46 similar story and, as was described earlier, the blue  
47 column is that determined by IPART. The green is what was

1 actually spent. We have spent more in the last four years  
2 and this has been due to significant upgrades at Kincumber  
3 and Woy Woy sewerage treatment plants. The projects have  
4 an increased scope of works over and above what was  
5 originally forecasted and following a detailed conditions  
6 risk assessment that was not available at the time that the  
7 prices were set. Other major capital works completed  
8 during the period include the Mardi to Mangrove link and  
9 other drought security expenditure.

10  
11 Revenue has been a major cause of concern. With our  
12 education, in drought conditions, obviously we have  
13 encouraged people not to use water. The community has  
14 responded really, really well to that and, as a result, the  
15 revenue that was forecast in the previous determination has  
16 not been realised. It is a major issue for us and it is  
17 something for which we have included a better method of  
18 determining should this occur in our current submission to  
19 you.

20  
21 So for the next pricing period, Mr Chairman, there are  
22 key cost drivers - I have mentioned those previously - and  
23 they are those costs associated with our increased  
24 operational costs, electricity, sludge management,  
25 regulatory requirements, establishment and transition to  
26 the Water Corporation and renewing ageing infrastructure.

27  
28 The sludge management is significant. As you would  
29 appreciate, probably 85 per cent of the sludge that we  
30 remove is water so we are doing what we can to remove as  
31 much water so that we are able to send that off to an  
32 appropriate marketplace.

33  
34 There have been changes in the Protection of the  
35 Environment Operations Act and also the Public Health Act  
36 which have placed new requirements on us as a water  
37 authority, and also there is the question of renewing  
38 ageing infrastructure. We have many mechanical and  
39 electrical assets that have reached the end of their useful  
40 lives and do require replacing.

41  
42 Forecasting operating costs: you can see that we have  
43 listed four areas there - corporate, water, sewerage, and  
44 stormwater - spread over the four years of the  
45 determination. There is a total cost of \$246 million. The  
46 proposed operating costs reflect the key areas of cost  
47 increases that I have described earlier. Also on the

1 corporate cost, the first line in that table, does include  
2 approximately \$2 million per annum for the transition and  
3 board operating costs for the Central Coast Water  
4 Corporation.

5  
6 Capital costs amount to \$147 million for the  
7 three classes of assets. We have \$41 million for water,  
8 \$92 million for sewerage and \$13 million for stormwater.  
9 You can see that the costs certainly reflect higher costs  
10 for sewerage, and this is where we have the ageing  
11 infrastructure and where we need to ensure that those  
12 facilities function as was designed and intended.

13  
14 Major water projects: I have not mentioned this  
15 project before. We have the Mangrove Creek Dam spillway.  
16 We need to look at that to ensure that the requirements of  
17 the spillway meet the dam safety committee's  
18 recommendations. We have the Somersby water treatment  
19 plant, replacement and renewal of various components to  
20 improve reliability, efficiency, safety, asset performance  
21 and improve the treatment process.

22  
23 We have our conditioning water-main renewal program to  
24 reduce the risk of water main failures and consequent loss  
25 of water and potential property damage. There is also the  
26 major water pump station renewal program to replace  
27 mechanical and electrical components of a critical nature.

28  
29 Turning to major sewerage projects, we will have a  
30 continuing pump station renewal program. This includes  
31 civil, mechanical and electrical refurbishments. We have  
32 182. We currently undertake about 20 per determination, so  
33 there is a lifecycle of approximately 40 years.

34  
35 There are significant dollars associated with sewage  
36 treatment plant upgrades including the high-volume  
37 switchboard replacement, digester refurbishment,  
38 electricity cogeneration, and process improvement. That is  
39 all about maintaining regulatory compliances to avoid failure  
40 of critical plant components.

41  
42 The sewerage services to Cockle Bay towns: This is a  
43 \$13 million provision of these services to an unsewered  
44 area under the priority sewer programs. There is also  
45 sewer mains renewal as well as odour and septicity  
46 management to ensure that we can control the actual fluid  
47 within the pipework.

1  
2 Major drainage projects: we have various trunk  
3 drainage within Kincumber and also the Terrigal catchments.  
4 There is also a range of stormwater improvement projects to  
5 ensure that flooding across the area is at least mitigated  
6 in those projects. Those major projects are to be  
7 undertaken in Kincumber and Terrigal, as I mentioned, with  
8 a collection of smaller projects located across the  
9 government area.  
10  
11 Water sales: we have residential and non-residential.  
12 You can see that we have given an indication there. That  
13 is based on an outcome from a consultant who was employed  
14 to undertake an analysis of the historical forecast sales  
15 and actual sales and to prepare water sales estimates for  
16 the next price path.  
17  
18 The forecast sales recognise the continued benefits  
19 for measures implemented over the last ten years, such as  
20 rainwater tanks, washing machine efficiencies, refit  
21 programs and ongoing water efficiency schemes such as  
22 contained in BASIX and the water efficiency labelling  
23 schemes.  
24  
25 With respect to proposed prices, again we have an  
26 indication of the prices included in our submission. The  
27 water service charge is based on a 20mm meter, which is  
28 predominantly a residential charge over the four years of  
29 this period. Well, as I heard it, the determination  
30 period has not been set, but obviously we have adopted a  
31 four-year period. The water usage charge is fixed. The  
32 sewerage service charge is based on the actual water meter  
33 as well and the sewerage charge is discounted from your  
34 \$2.12 currently per kilolitre. Then we have the stormwater  
35 service charge, which is the same across all properties.  
36  
37 You can see that we have modelled the typical  
38 residential bill, which is a 20mm service. Down the  
39 bottom, the increases are indicated as well. That is based  
40 on 200 kilolitres; however, we are about 150 kilolitres.  
41  
42 Mitigating customer impacts: we have smoothed the  
43 prices across all the areas that we have just alluded to.  
44 We also have the pensioner rebates and we would like that  
45 to be looked at. We have a payment plan system. For  
46 example, we have a hardship committee where we can enter  
47 into agreement with those who are unable to afford the

1 actual payment of the bills at that particular time.  
2  
3 And last but not least, I turn to investing in the  
4 future. We are committed to delivering good value and  
5 quality service to the customers. We are working to  
6 maintain and improve our extensive networks of assets and  
7 service delivery so we can protect the health and  
8 environment for years. Thank you very much.  
9  
10 THE CHAIRMAN: Thank you very much, Stephen.  
11 Questions, Amanda or Lucy?  
12  
13 MS GARNIER: Just looking at your slides and your  
14 submission for the price rises, the price rises are quite  
15 significant. Why does Gosford City Council believe those  
16 price rises are justified?  
17  
18 MS KNIGHT: We are definitely really conscious of the  
19 impact that any price rise can have and the concern that it  
20 will cause for residents. Basically, the pricing model,  
21 and the economic model around how IPART price it, is based  
22 on costs. So we, as an organisation, are incurring  
23 increasing costs across all of our businesses and we need  
24 to recover those costs.  
25  
26 We have looked at those costs and tried to minimise  
27 those where possible, but we need to recover those from  
28 somewhere, and unfortunately this is the model for where we  
29 need to recover those prices. We are certainly committed  
30 to working to see how we can mitigate those price impacts  
31 on the most vulnerable customers, but unfortunately it is a  
32 necessary part of cost recovery when running a very complex  
33 business that delivers huge amount of services and that has  
34 a vast infrastructure.  
35  
36 MS GARNIER: That probably leads me more on to one of my  
37 later questions for you. Your figures show that you will  
38 under-recover the revenue that you require. How are you  
39 proposing to fund that shortfall?  
40  
41 MS KNIGHT: So you are referring to the revenue smoothing,  
42 the cost saving, price smoothing?  
43  
44 MS GARNIER: Yes.  
45  
46 MS KNIGHT: We have proposed that we will forgo the full  
47 part of the full revenue needs in the earlier years so we

1 don't have a price shock. We will need to manage this in a  
2 similar way that we have managed the loss of revenue due to  
3 water sales in the current period. We will have to have  
4 increased loan funding for our capital program, because we  
5 do not have the cash to cash fund it, and that will affect  
6 council's expenditure sustainability, but we thought it was  
7 a necessary step to avoid the price shock that otherwise  
8 would result.  
9  
10 THE CHAIRMAN: Just on that, I noticed in the last period  
11 your operating expenses were above what IPART allowed and  
12 your revenue was below what IPART thought you would use.  
13 How did you cope with that?  
14  
15 MS KNIGHT: It was obviously a great concern to us when  
16 we had that squeeze coming at both directions. So we looked  
17 at where we could minimise the operating costs and did so  
18 where it was possible. But basically it meant we ate into  
19 any cash reserves that we had and we increasingly loan  
20 funded our capital program.  
21  
22 MR COX: Can I ask a supplementary question. You  
23 mentioned, I think, Elizabeth, the concern about the price  
24 increases and that the price increases are the minimum  
25 necessary to do what you need to do. Can you tell us what  
26 consideration you gave to alternative options, just to give  
27 some sense of the process that you went through to ensure  
28 that the price increase was no more than what you need?  
29  
30 MS KNIGHT: Sure. In terms of alternative options, I - do  
31 you mean for operating models or --  
32  
33 MR COX: Did you consider, for example, deferring some  
34 capital expenditure or making some productivity savings so  
35 the opex was less? I mean that sort of thing.  
36  
37 MS KNIGHT: Definitely we looked at our capital programs.  
38 We did an initial path for our capital programs. We then  
39 came up with a very large number based on the raw  
40 information that is coming out of our asset management  
41 systems about what needs to be delivered and when. We took  
42 a part of that and basically cut out anything that wasn't a  
43 higher extreme risk of deferral.  
44  
45 That is basically how our capital program has been  
46 trimmed back to make sure that we are only delivering the  
47 critical infrastructure that absolutely needs to be done in

1 this period. Any medium or low risk of deferrals were  
2 deferred. We were very conscious of that, so that was one  
3 major thing.  
4  
5 We scrutinised every single account in our operating  
6 budgets and looked at where we could potentially reduce  
7 costs. Some of the areas that we looked at were  
8 communications and education, which was very intense during  
9 the drought. Also as we have been coming out of water  
10 restrictions, we have looked for areas like that where we  
11 thought, "Yes, there is still definitely a role for  
12 communication and education, but it does not perhaps need  
13 to be as intense as it was when we had those restrictions."  
14 So we actually went through that process of looking at  
15 every single account number that we have, what that  
16 function was, and whether we could adjust the budgets going  
17 forward for that area.  
18  
19 MS GARNIER: Your price increases, as I showed in my  
20 chart, have increased continually over the last ten years.  
21 Do you see water prices, average bills increasing  
22 indefinitely, or is there potentially a change with the  
23 introduction of the Central Coast Water Corporation?  
24  
25 MS KNIGHT: I certainly cannot forecast indefinite  
26 futures, but I think that our costs are really determined  
27 by a lot of various inputs into our business. I guess if  
28 electricity continues to go up, that will put further  
29 pressure on us. If electricity costs were to stay a bit  
30 more stable, that would help stabilise some of our cost  
31 increases, but that could be true of any input into our  
32 business.  
33  
34 In terms of the Central Coast Water Corporation,  
35 I think it is far too early to say whether it will have any  
36 material impact on real prices. We are certainly looking  
37 at ways, in creating the corporation, that could improve  
38 the efficiencies, but the impact of that on prices is just  
39 too early to know how specific that would be.  
40  
41 MS CHADWICK: Just before we leave the topic of the way in  
42 which your budget was established, can I ask how customers  
43 views are inputted into the process of reviewing the  
44 budget, because clearly there has been a strong customer  
45 response to your price submission?  
46  
47 MS KNIGHT: The customer consultation that we have done



1 around our capital program and operating costs has been  
2 limited to specific capital programs where customers were  
3 potentially getting a new service. For example, the Cockle  
4 Bay town sewerage program is a new program. We need to  
5 decide whether the community is willing to pay for that or  
6 not, and we have had extensive discussions with various  
7 communities. Through those discussions we decided not to  
8 proceed with some other areas of priority sewerage  
9 programming because the customers were not willing to pay  
10 for the provision of a sewerage service to their property;  
11 whereas there was more of an indication in this area that  
12 we are going ahead with that they were willing to pay. So  
13 that has been the extent of our community consultation  
14 around those specific projects.

15  
16 MS CHADWICK: Can I ask you a question on a slightly  
17 different topic now relating to your sales forecasts.  
18 Given the Central Coast is now in a period of Waterwise  
19 rules, how has the move from restrictions to Waterwise  
20 rules been factored into your sales forecasts?  
21

22 MS KNIGHT: We worked very closely with Wyong Shire  
23 Council to develop our sales forecasts and we engaged a  
24 specialist. We used the same model as we did last time,  
25 but with modifications to that model. Some of the factors  
26 that we are looking at include what is unrestricted demand  
27 going forward, and accounting for the fact that  
28 unrestricted demand will be different from what it was ten  
29 years ago. Part of that reason is because we will have  
30 these ongoing permanent Waterwise rules, which continue to  
31 discourage what might be regarded as wasteful use of the  
32 water and encourage people to continue to be really smart  
33 about how they use water.

34  
35 That is definitely part of the many, many factors that  
36 have gone into a fairly complex model reflecting all of the  
37 benefits and savings that we have put in over the last ten  
38 years that will continue to reduce the demand on the  
39 system.

40  
41 MS CHADWICK: There are some inconsistencies between the  
42 submissions of the two councils and Hunter with regard to  
43 the transfers on the pipeline backwards and forwards on  
44 revenues and volumes. Could you tell us the status of  
45 those negotiations around this banking concept and how we  
46 should be reconciling these inconsistencies?  
47

1 MS KNIGHT: Sure. So when you say "banking", I think we  
2 need to recognise that the water banking concept is quite a  
3 separate concept from the regular Hunter interchange that  
4 we have been doing. Are you referring more to the ongoing  
5 Hunter interchange or --  
6

7 MS CHADWICK: The ongoing interchange.  
8

9 MS KNIGHT: It has been an ongoing relationship with  
10 Hunter for quite a few years now that we have been  
11 transferring water into the Wyong system, which obviously  
12 benefits Gosford as well, from Hunter Water. Hunter has  
13 used a similar methodology to the way that the price is  
14 currently calculated and we support that.  
15

16 Gosford and Wyong have undertaken some analysis using  
17 water headworks modelling to estimate how much water we  
18 might need to be drawing through that system, and that is  
19 what the volumes that we propose in our submission are  
20 based on. If Hunter has a different value in its  
21 submission, that is unfortunate, but we based our proposal  
22 on our best understanding of what our modelling is  
23 indicating we will need.  
24

25 MS GARNIER: We have received a lot of submissions on  
26 assistance programs for vulnerable customers of yours. You  
27 did outline that there are a number of programs that you  
28 run. Have you considered any other more targeted  
29 assistance programs for the particular customer groups?  
30

31 MS KNIGHT: I think the situation that Gosford is in is  
32 that we actually have a low level of demand for the current  
33 services that we are providing. I am not saying there is a  
34 need out in the community, but finding out exactly what  
35 will best fill that need, I think is an area that needs to  
36 have a lot more conversation about it.  
37

38 We are very reluctant to set up a scheme that will  
39 have costs associated with it if it will not directly  
40 target those people who really need that help. We are  
41 certainly open to working with the sector which knows  
42 exactly what might provide the best help for those most  
43 vulnerable customers.  
44

45 MS GARNIER: We can move on to your capital expenditure  
46 now. In your presentation, you did give us some detail  
47 about capex, but we were just mindful of the fact that you

1 have overspent on your capital program by around 40 per  
2 cent. Could you give us a bit more detail as to how that  
3 overspend is made up, how it got that big?

4  
5 MS KNIGHT: As was alluded to in the presentations, the  
6 sewerage treatment system, which is largely at the sewerage  
7 treatment plant, is one significant area for increased  
8 scope of works and thus increased expenditure. What we  
9 proposed at the last submission was based on our best  
10 available estimates, at the time, of the work that needed  
11 to be done at the treatment plant. As we went and delved  
12 and started doing the detailed investigations into those  
13 things, there was a lot more work to be done than was  
14 originally realised.

15  
16 For example, once we were able to empty the inlet  
17 works and actually see their condition, we found that  
18 they were in a poorer condition than we had expected and  
19 they required a lot more work to be done and expenditure  
20 to be spent on them to bring them up to the required  
21 standard.

22  
23 It is the same thing for our digesters, which we are  
24 working on this current year. That is again a major  
25 infrastructure investment. As we started doing a more  
26 detailed investigation into that, the original strategy  
27 that was proposed was not possible once we fully  
28 investigated the extent of the condition of those assets.  
29 So that has occurred because of the increasing scope of  
30 works around what has actually been done and how that  
31 needs to be brought up to the appropriate standard.

32  
33 MS GARNIER: I guess that leads me on to a question about  
34 how you prioritise and how you work out your capital  
35 program as a whole. For your increased works on projects  
36 and schemes that you have started, your costs have gone up,  
37 but you have continued to do other work as well. Could you  
38 explain how you prioritise projects and, in a scenario, how  
39 projects would drop off your capital program rather than  
40 just overspending?

41  
42 MS KNIGHT: We would consider each project that we had  
43 ready to go and assess whether it was possible to drop them  
44 off. There is a reason why those projects are on the  
45 program in the first place, so it is not always possible to  
46 drop something off if there was a risk assessment that  
47 indicated that it needed to be done. Unfortunately, it is

1 not always possible to drop projects off, to still have the  
2 same amount in total, but obviously we would consider each  
3 project on its merit, and if that is the way to make sure  
4 we can deliver within budget, we would certainly consider  
5 that.

6  
7 MS GARNIER: My more direct question then is: do you have  
8 an overall view of your capital program like that or is it  
9 just individual projects? Is someone responsible for  
10 asking those questions when you notice an overspend is  
11 occurring?

12  
13 MS KNIGHT: So that is, I guess, less? It is a process we  
14 are continuing to enhance. Particularly with the  
15 submission that we put up, we have everything risk ranked,  
16 so we can definitely have that formal discussion about what  
17 falls off, and that has been happening throughout this  
18 period as well. It has just been unfortunate that we were  
19 committed to delivering what we had on the program.

20  
21 THE CHAIRMAN: I was going to suggest that we move on  
22 to Wyong now. There will be an opportunity, after Wyong's  
23 presentation, for questions to both Gosford and Wyong.  
24 Thank you very much, Stephen and Elizabeth.

25  
26 WYONG SHIRE COUNCIL

27  
28 MR WHITTAKER: Mr Chairman, other members of IPART,  
29 ladies and gentlemen, thank you very much for this  
30 opportunity to present our pricing submission. My name is  
31 Mike Whittaker. I am the general manager of Wyong Shire  
32 Council. I have a number of my technical staff who are  
33 actually here in the audience. They will join me when we  
34 get to the questions.

35  
36 Our presentation today is much smaller than Gosford's.  
37 We have done that mainly because we know there is a lot of  
38 replication and we are trying to make sure that those in  
39 the audience do not hear the same message twice. Most  
40 importantly, we wish to take you through the items that we  
41 are going to cover today.

42  
43 We are, firstly, going to cover a little bit of  
44 background information, then the price structure, the price  
45 proposal, the customer impacts, the operational capital  
46 expenditure issues, the water sales revenue risks, the  
47 Central Coast Water Corporation and other issues before we

1 move into the questions from IPART and its support team.  
2  
3 I wanted to highlight that, in regards to the term  
4 that has been raised by the chair, we are hopeful that the  
5 actual pricing determination will be four years. That is  
6 based on a number of elements. Under the Local Government  
7 Act, we are obligated to report on four-year delivery  
8 plans. As a council, to have the pricing submission  
9 integrated with that four-year delivery plan, it is  
10 absolutely essential because, from a corporate sense, we  
11 have a strategic planning framework.  
12

13 Secondly, the Central Coast Water Corporation will be  
14 established on 1 July 2017. That time frame is really to  
15 allow us to cashflow the set-up of the Central Coast Water  
16 Corporation because it is such an expensive project and  
17 that cannot be done in one year. It allows us to take the  
18 liabilities and the risks for delivering the water and  
19 sewer programs as councils over the next four years, and  
20 then there will be a clean handover of the risks and  
21 liabilities, and the obligation to deliver the water and  
22 sewer services to our community, on 1 July 2017 to the  
23 Water Corporation.  
24

25 The third component is that it replicates the  
26 historical determination terms, as set by IPART, being four  
27 years. That allows us to move to the next item, which is  
28 the price structure. Most importantly, the council's price  
29 proposal is based on the retention of the current price  
30 structure. It made it easy for the community, made it easy  
31 for our staff, made it easy for IPART to understand where  
32 we are coming from and where we are going. It also allows  
33 us to work within our existing systems. As you can  
34 imagine, when you change a price structure, the fundamental  
35 implementation of that is quite significant in any entity.  
36 You have to retrain your staff, buy new systems, et cetera.  
37 So that was the fundamental framework.  
38

39 We also recognised IPART's March 2012 report on the  
40 review of the price structures for metropolitan utilities.  
41 That was actually very important for Wyong. We had trouble  
42 in the past determination, but we have had great assistance  
43 from the IPART team in assisting us to produce this new  
44 price submission in compliance with that price structure.  
45 So we are obviously fitting in with the industry regulator  
46 and the industry peers. So that is part of this particular  
47 aspect.

1  
2 Also, because of the relativities between fixed and  
3 variable prices for certain customer groups, we have tried  
4 to make sure that there was recognition for user pay and  
5 therefore the pricing structure allowed people to determine  
6 somewhat their own price - so this reflected that.  
7

8 Our approach has been based on our limited resources  
9 within council. We are actually a very, I guess,  
10 operational council in regards to our policy teams. We  
11 have limited resources in that area and we really do defer  
12 to the expertise that IPART has. We believe IPART is better  
13 placed, as the regulator, to ensure how you get that  
14 industry comparison and, therefore, competition when you  
15 are actually a monopoly supplier in a regulated area.  
16

17 With the pricing proposal, you will see what we have  
18 actually done is that is we have tried to make it easy. We  
19 have presented two lots of figures, because some people  
20 target CPI and a percentage, but we have also put in the  
21 real figures. I will go to the next chart in a minute, but  
22 I will take you through this.  
23

24 You can see in the sewerage usage charge that all we  
25 have gone for is CPI, whatever that may be. In the water  
26 service charge, in the first year, we are looking only for  
27 a small increase, but we are actually going for larger  
28 increases just above the double figures. And with the  
29 water usage charge, there are similar sorts of things as we  
30 travel along the four-year determination.  
31

32 A lot of those things were around trying to get price  
33 convergence between ourselves and Gosford so that when we  
34 establish the Water Corporation, it will become an easy,  
35 I guess, decision for that entity and it will not become a  
36 political football. It is very important that the creation  
37 of the new corporation does not result in the two councils  
38 using the corporation as a little bit of a scapegoat for  
39 why prices have gone up at Wyong or why prices have gone  
40 up at Gosford. We have used that price convergence over  
41 the four-year period so that, by the end of 2016/17, there  
42 will be alignment, particularly on the water charges  
43 between Gosford and Wyong, and you will see that in the  
44 water area.  
45

46 Here are the real figures. The percentages are one  
47 thing and they can present a certain view, particularly

1 when the media jump on the bandwagon, but when you go to  
2 the real figures and particularly when you look at the  
3 actual usage rate of a normal residential property, through  
4 the drought we dropped down to 140 kilolitres per annum.  
5 Obviously in the past submissions, we were using figures of  
6 220 kilolitres.

8 Now we are on Waterwise and the figures have bounced  
9 back only to just under 160 kilolitres per annum. They  
10 have not bounced back any further. This now seems to be  
11 the new threshold usage rate at Wyong, and I think it also  
12 is at Gosford.

14 The most important thing to have a look at is what  
15 will happen in the first year. People can say 10 per cent,  
16 but you are looking at just over \$100, and in the final  
17 year you are looking at \$140. We have been very careful to  
18 try and keep it to just below the 10 per cent, the  
19 double-figures mark, around the hardship and the problems  
20 for our community.

22 We have an extensive hardship framework that has  
23 actually been commended by EWON. But we have done that  
24 intentionally because, at the end of the day, we can go to  
25 our community and tell them that, for \$2 a week in the  
26 first year and under \$3 a week in the fourth year - which  
27 is less than what they pay for a bottle of water out of a  
28 shop - they will start to get guaranteed supply in regards  
29 to their service, and that is the really important thing.  
30 We have to get this message down to the community that they  
31 are happy to go and pay \$3 for a plastic bottle of water  
32 each week; yet here, we have over \$1.1 billion worth of  
33 their assets, the community's assets, and this guarantees  
34 the integrity of those assets. That is the most important  
35 thing we are trying to get across. So we have been very  
36 careful in how we have structured our pricing over the  
37 four-year determination and we believe that we have ended  
38 up with a figure that is affordable but guarantees the  
39 infrastructure going forward.

41 With regard to the operational expenditure issues, you  
42 are aware from our detailed submission, both from  
43 expenditure and revenue, that we have had challenges as has  
44 Gosford. Both sides are sort of diverging, which makes it  
45 very difficult. We have extensive growth proposed in Wyong  
46 shire under the metropolitan strategy that has been adopted  
47 by the state government. We are expected to get another

1 170,000 people over the next 20 years. The Central Coast  
2 is expected to get another 100,000 people over 20 years -  
3 30,000 at Gosford and 70,000 at Wyong.

5 I will talk a bit about capital expenditure and how  
6 that is linked to growth, and I notice that, this  
7 afternoon, we will actually talk more about the development  
8 service plans.

10 The second thing is salary and wage increases. They  
11 are not going up by CPI. In this area particularly, we  
12 have a lot of engineering staff, a lot of technical staff.  
13 We are in competition with the Hunter. The engineering  
14 staff can go to the Hunter and to the mines and command far  
15 greater salaries and wages than local government can  
16 provide. It is a real challenge for us to maintain this  
17 intellectual property to maintain the infrastructure.

19 Turning to maintenance of the ageing assets, whether  
20 we like it or not it is probably only over the last eight  
21 years that we in local government have really become  
22 sophisticated in regards to how we treat our assets. For  
23 the 70 years prior to that, our assets were being run down.  
24 Over the last eight years, we have become very  
25 sophisticated, and particularly so over the last four  
26 years, so that we understand the whole-of-life costing  
27 around an asset and we have asset management plans,  
28 condition audits and appropriate renewal programs for all  
29 of our infrastructure. This pricing determination reflects  
30 that.

32 Changing legislation and community standards: there is  
33 the example of the public health standards. There is a  
34 whole plethora of other environmental standards. There are  
35 governance frameworks around using public moneys. There  
36 is  
37 pressure on local government and on the water and sewer  
38 area in regards to key performance indicators - so various  
39 standards. It has become very onerous and very  
40 sophisticated and we are obliging accordingly.

41 Then we have the cost impacts of new capital  
42 expenditure coming on line. We have gone through the  
43 drought. There has been an enormous capital works program.  
44 Most of that has been located up in the Wyong area, whether  
45 we have linked up with Hunter Water or whether it has been  
46 through support from Gosford, but we have actually  
47 delivered on drought proofing our water security with our

1 existing project management and engineering staff. I think  
2 that is a wonderful reflection of the corporate  
3 intelligence that we actually have inside the organisation  
4 in dealing with the challenges that we have had over the  
5 last decade.  
6  
7 Going further, with the corporate support costs, once  
8 again there are the governance frameworks. How do you  
9 carve up corporate support? People can have a look at  
10 their IT systems and put that into a corporate overhead.  
11 But if you are truly honest around delivering your water  
12 and sewer business, or any business that you are in,  
13 information and the management of information to me is not  
14 a corporate overhead. It is absolutely essential as part  
15 of the water and sewer business. I also believe that is  
16 the case with HR. People talk about that as being a  
17 corporate overhead, but in regards to work health and  
18 safety - we have the new legislation - it is an essential  
19 part of your water and sewer business.  
20  
21 I personally have a view that some of the corporate  
22 overheads need to become more sophisticated to work out  
23 what is corporate and what is essential to water and sewer  
24 now. IT, HR, those various other elements, to me are water  
25 and sewer, and a whole lot of other businesses are exactly  
26 the same. But we respect the building block framework and  
27 we have reported accordingly in full compliance with the  
28 building block framework.  
29  
30 Going now to electricity costs, I will not tell IPART  
31 anything new there, but the challenge that we have, as one  
32 of the biggest energy users, in Wyong Shire Council has  
33 been very difficult for us. We have gone through a massive  
34 capital works program to upgrade a lot of our energy supply  
35 to the water and sewer. That will, hopefully, generate  
36 significant savings, but it is a real cost that we need to  
37 deal with in this pricing submission.  
38  
39 The impacts of carbon pricing: once again we are  
40 caught up with that and we have to pay our taxes  
41 accordingly.  
42  
43 The establishment of the Central Coast Water  
44 Corporation, I will go into in future overheads, but that  
45 particular corporation, besides it being a statutory  
46 obligation and a political process to get this to point,  
47 will literally produce a fantastic outcome for the Central

1 Coast community. The water system will be integrated. The  
2 bulk water and how it is treated and distributed will be  
3 integrated. Instead of having two political structures  
4 oversighting that, even though I must say these are two  
5 very well coordinated and well-managed councils with very  
6 good relationships between the two entities, having one  
7 would be better. It will be very straightforward in  
8 regards to integrated capital works delivery and integrated  
9 strategic planning. You will not need to go through two  
10 processes.  
11  
12 The most important thing that came out of our  
13 independent process of evaluating that proposal was the  
14 financial benefits that will ensue in having one single  
15 corporate framework. A classic example is: we have  
16 68 core software packages that service our entities. Some  
17 of those line up, but most don't. Going to one lot of  
18 68 core systems will generate enormous savings for both  
19 entities.  
20  
21 As to the forecast capital expenditure key drivers,  
22 Gosford has actually covered those elements. I know that  
23 the most important thing is that they are in our  
24 submission. I am hopeful that everyone has had a chance to  
25 have a look at the submission. The key things here are  
26 about the timely growth of related expenditure and  
27 infrastructure.  
28  
29 There was a question asked by either Lucy or Amanda in  
30 regards to do we actually have a look at deferring  
31 appropriate capital works? We do that with the growth  
32 competent. I know that you, Mr Chairman, highlighted, at  
33 the start of the presentation, our under-expenditure in  
34 capital. That is because the growth that was planned did  
35 not arise in the last four years and, as such, we deferred  
36 those works. They are still on our books to do, but they  
37 will be linked to the appropriate land releases and the  
38 appropriate new population that arrives in Wyong and  
39 therefore it will come on line accordingly.  
40  
41 The renewal of the ageing asset base, I have talked  
42 a little bit about that before. The changing legislation,  
43 I have talked about before and the water security. The  
44 water security has been something that has been at the  
45 forefront for the Central Coast and Wyong. When you get  
46 your water reserves down to 12 per cent and you have  
47 contingency plans of getting every water truck in New South

1 Wales travelling on the F3, you really do start to get  
2 quite panicked.  
3  
4 Of course, there is the question of the value drop in  
5 anyone's asset around their home. If we were to get down  
6 to zero, everyone knows what that would mean for people's  
7 homes. So the expenditure that is required to ensure water  
8 is driven and delivered to your home became an imperative.  
9 As a result of that imperative, we have worked very hard  
10 and tirelessly to do that. The latest figure of just under  
11 50 per cent is a phenomenal outcome and one that we are  
12 very proud of. We hope that IPART is also proud of that  
13 because you played an important part.  
14  
15 The water sales revenue risk is a real conundrum for  
16 us. Over the last decade or nine years, there has been a  
17 \$16 million shortfall. This is the real challenge because,  
18 under the Local Government Act, besides working with the  
19 Office of Water, we are the only council, along with  
20 Gosford, that is regulated by IPART. All other councils  
21 are able to determine their prices in consultation with the  
22 Office of Water.  
23  
24 Here, where we have been \$16 million short, we have  
25 had to use debt funding to actually cover that off. That  
26 is a real challenge for a council which has a whole  
27 plethora of other services to deliver on. It basically  
28 creates a priority to go into this area over other areas  
29 that the council never had choice about because we did not  
30 have control over the price income. That has been a real  
31 conundrum for us and it is one that we have dealt with  
32 through this particular price submission in a great deal.  
33  
34 We have had a lot of external consultants come on  
35 board. We have worked very closely with IPART and the  
36 professional staff to work through that. We have a very  
37 sophisticated demand management model, which has allowed  
38 us to get the figures right and we have reflected that  
39 accordingly. It is one that we do not want to go forward  
40 with for the next four years. We need to extinguish that  
41 risk because it really does impact on the bottom line of  
42 the council's financial position.  
43  
44 In regards to the water sales over 2014 through to  
45 2017, they are still depressed compared with unrestricted,  
46 but from an accounting aspect, we actually make it come to  
47 a break-even over the four-year period. It is actually

1 quite an astute process that we have done, but, in  
2 addition, we have been very careful to try and make sure  
3 that the process of the price increase reflects the  
4 capacity of our community at Wyong.  
5  
6 There are still ongoing financial risks if the  
7 projected sales are not actually achieved, but we are far  
8 more confident about our figures this time than we were in  
9 the past pricing system.  
10  
11 The Central Coast Water Corporation, I have talked on  
12 a little bit. Stephen has talked about the history. The  
13 most important thing that we wish to make very clear with  
14 regard to the total costs of the Central Cost Water  
15 Corporation - I am not talking about the sunken costs over  
16 the last 17 years that we have been talking about this - is  
17 that we now have a commitment to deliver in four years  
18 between the three stakeholders, being the state government  
19 and the two councils. So it is happening. There is a  
20 commitment that will cost \$24.7 million over the next four  
21 years.  
22  
23 What the councils have done is said that there will be  
24 a benefit to the councils and there will be a benefit to  
25 the Central Coast Water Corporation, even though it is only  
26 happening because of the Central Coast Water Corporation.  
27 We need to understand the trigger has been the Central  
28 Coast Water Corporation legislation, but the councils have  
29 been mature and sophisticated to say that the benefits will  
30 arise for all three entities.  
31  
32 We have allocated a benefit ratio of fifty-fifty, in  
33 that 50 per cent is allocated to the councils and 50 per  
34 cent is allocated to the Water Corporation. So the  
35 \$24.7 million expenditure is really a \$12.4 million  
36 expenditure for the Water Corporation and in the pricing  
37 submissions.  
38  
39 Even further to that, we knew that a \$12.4 million  
40 allocation across two councils in one four-year submission  
41 would be too much of an impost. We have tried to be very  
42 careful. In our submission, we have allocated it over two  
43 pricing submissions. We are saying that it will be  
44 allocated 50 per cent in the 2017/21 submission and 50 per  
45 cent in the 2014/17 submission, which means that the  
46 allocation is only \$6.2 million, split by the councils down  
47 to \$3.1 million. In addition, there are the costs of the

1 board, which come to a further \$1.2 million. So it is  
2 around about \$4.2 million in total of the four-year  
3 submission that is before you now.

4  
5 The rest is being picked up by the council through  
6 cash-flow management. Then, in the 2017/21 submission, we  
7 will obviously be seeking payment back to the councils for  
8 cash-flowing this particular process. So it has been  
9 thought through very well, and very fairly, between the  
10 parties. I am not quite sure that the consultants who came  
11 on, on behalf of IPART, actually understood that that was  
12 the model that we actually agreed to, and we have obviously  
13 responded to those consultants accordingly.

14  
15 That demonstrates that our council and Gosford City  
16 Council have been very fair in their practices and have  
17 recognised the benefits that will arise.  
18 PricewaterhouseCoopers also demonstrated that the return on  
19 investment - this was their model, which was not adopted  
20 100 per cent by the two councils - on their model showed a  
21 return of about five to one when you set up a joint service  
22 business with the Central Coast Water Corporation, which is  
23 a really great return on investment.

24  
25 What the councils did, through the Water Corporation,  
26 was that they decided not to actually make any staff  
27 redundant. People might say, "Is this trying to deliver  
28 the lowest cost structure?" Yes, it is, because what the  
29 councils have considered is the growth on the Central Coast  
30 with the arrival of a further 100,000 people. So we are  
31 keeping the corporate knowledge, ensuring we do not have  
32 any industrial relations problems, and we are growing the  
33 Central Coast Water Corporation to take the capacity to  
34 pick up the new 100,000 people who will arrive. So we are  
35 doing it through growth rather than reductions and costs.  
36 I think that is really important.

37  
38 Going forward, the operating model has been outlined  
39 by Stephen. I will not talk through much of that. The  
40 only thing I wanted to highlight relates to stormwater  
41 drainage and why was it that the model decided by the two  
42 councils was that stormwater should actually stay with the  
43 two councils.

44  
45 We realised that we have a comparator in metropolitan  
46 Sydney where stormwater, in the main, is dealt with by  
47 councils. We did a full discussion paper and then we

1 analysed a number of models and options for what would be  
2 the best way to go for the Central Coast. It came down to  
3 the service delivery model, which is: what is the one  
4 that is the most efficient? The stormwater drains travel  
5 in the road corridors. When you are actually doing your  
6 works for roads, obviously having a trench open, that is  
7 the time you can actually deal with your stormwater and  
8 your pits and the like, so it will become an integrated  
9 service.

10  
11 Once again, we gave consideration to what was the  
12 model that would create the lowest cost for our community,  
13 and that is why we went with the model where drainage  
14 should stay with the councils. If there was a model that  
15 showed it was more efficient to go with the water and sewer  
16 business, then we would do that. From then on, the two  
17 councils have been giving consideration to how do we  
18 actually ensure the least cost structure for our consumer,  
19 and that is where we have gone to. I am just about to  
20 finish, Mr Chairman.

21  
22 The other issues are fairly straightforward. In the  
23 scheme of the whole pricing submission, these are less  
24 material, but still important to our community. You saw  
25 the CPI increases, mainly for the other charges. There are  
26 a couple of new charges, but I will not go any further and  
27 perhaps I could open it up, Mr Chairman, to any questions  
28 that you have.

29  
30 THE CHAIRMAN: Thank you very much, Mike. We will  
31 have a couple of questions and then we will move into more  
32 general questions.

33  
34 MS GARNIER: In your capital program, I understand that,  
35 over the last determination period, you have given us two  
36 reasons for that really: one being the growth, which is  
37 understandable; the second is resource constraints.  
38 I would like you to outline how you have taken that  
39 constraint into consideration for your future capital  
40 program?

41  
42 MR WHITTAKER: I will start off on this one and then,  
43 Greg Cashin, who is the officer in charge of our capital  
44 works, will actually provide supplementary information.

45  
46 Over the last pricing determination, what the council  
47 has done is go through a service delivery review. As part

1 of that service delivery review, we focused on how we could  
2 actually change some of our processes and we did  
3 co-location for a lot of our project management and capital  
4 works delivery. So we created a whole new department which  
5 was focused on infrastructure management.  
6

7 That service delivery review literally allowed us to  
8 bring those staff, like-minded in delivery of capital  
9 works, into one single area. That resulted in a saving of  
10 about \$8.6 million for us. So the first thing is that we  
11 actually reviewed our internal resources to make sure that  
12 we were getting the best value.  
13

14 The second aspect is something you highlighted too.  
15 What we have also introduced is a project assessment team.  
16 In that we have senior managers, who have been set up from  
17 across the organisation. That involves people like my CFO,  
18 my chief engineer in charge of asset management, who  
19 literally now analyse business cases for every capital  
20 project, not just for water and sewer. That then comes  
21 through, and we have adopted a model, which we have  
22 actually on-sold, amazingly, to Regional Development  
23 Australia (RDA), so they can actually identify priority and  
24 best outcomes from a quadruple bottom line for the  
25 community.  
26

27 That model starts to prioritise our projects and we  
28 have delivered a template framework on how we introduce  
29 our projects from a commissioning stage. So the whole planning  
30 and design framework up-front has been made far more  
31 disciplined and sophisticated, which then is guaranteeing a  
32 better delivery. That planning design aspect is really  
33 important and we have highlighted that in our submission.  
34

35 MR CASHIN: Just from the actual procurement side, we have  
36 been making improvements there. We have been establishing  
37 joint panels with Gosford to make it easier to procure  
38 work. We have been bundling our projects. Rather than do  
39 things project by project, we are now doing several  
40 projects at a time in the one package to get efficiencies  
41 in project management.  
42

43 I think it is important to note that the first stage  
44 of the Water Corporation in 2014 will see the management of  
45 the capital works program of Gosford and Wyong councils  
46 undertaken by a single body. So we will be pooling those  
47 resources and we will be getting much greater efficiencies

1 and economies of scale out of that.

2  
3 MS GARNIER: Just to carry on from your description of the  
4 project team --  
5

6 MR WHITTAKER: The project assessment team.  
7

8 MS GARNIER: The project assessment team, thank you. What  
9 we have noticed when we started to look through your  
10 capital programs is that you do prioritise projects in  
11 order of risk. What do you do to ensure that all the  
12 projects you do have a positive cost benefit to them? So  
13 what puts the bottom line on your priority projects?  
14

15 MR WHITTAKER: Obviously as part of the documentation  
16 that goes through the project assessment team, besides the  
17 feasibility studies and the risk matrix model, we have  
18 quantified that and it actually delivers a particular  
19 percentage.  
20

21 I might ask Greg McDonald to respond. Greg, I guess,  
22 put a lot of form around that particular model that fed  
23 through and now drives the whole of our entity.  
24

25 MR McDONALD: That's right. With the project assessment  
26 team, as Mike said, it looks at the quadruple bottom line -  
27 so governance, finance, environment and community. We  
28 require that each of those four areas get a minimum score,  
29 and overall the four combined get a minimum score before  
30 that project progresses through to completion. So even  
31 though council may have adopted a project within its  
32 budget, the finance gates are not open until that project  
33 is assessed, all four areas get a minimum score the project  
34 overall gets a minimum score.  
35

36 MR WHITTAKER: Our early modelling is showing that we  
37 are starting to enhance the financial outcome by anywhere  
38 between 10 and 17 per cent as a result of this integrity.  
39

40 MR CASHIN: While our cost benefit is directly applicable  
41 to renewals type projects, there are also projects we have  
42 to do to meet legislative standards that incur costs out of  
43 necessity.  
44

45 MS CHADWICK: I would like to ask you some questions  
46 now  
47 about your systems for opex control. Through the course of  
the determination period, clearly your revenues were down



1 but your opex was up. At what point did the council become  
2 aware of this squeeze and what, in the course of those four  
3 years, were you doing to try and control it?

4  
5 MR WHITTAKER: I joined Wyong Shire Council in May 2010.  
6 Certainly the council was aware of the problem before that.  
7 As a result of my arrival, we deferred a number of capital  
8 programs that were linked to --

9  
10 MS CHADWICK: Sorry, the question is about opex.

11  
12 MR WHITTAKER: I am sorry. In regard to opex, we reduced  
13 our utilisation of external contractors and consultants  
14 because we had flexibility around that. In addition, we  
15 actually revisited a number of jobs within the actual water  
16 and sewer service unit and we had a look at multi-tasking  
17 those. We changed the service delivery framework so that  
18 the staff were doing more functions. That was worked  
19 through with the staff, the consultative committee, and  
20 also with the unions, and that was supported.

21  
22 MR McDONALD: We have some discretionary choice in  
23 reducing operation expenses. Probably the main one around  
24 that is we have a staff establishment of about 136. We are  
25 currently carrying about 18 or 19 vacancies at present.

26  
27 Part of the works that we deferred, I guess, during  
28 the last four-year determination was a lot of flushing and  
29 water quality works. Because we were so low in our water  
30 reserves, we made a deliberate choice to conserve water and  
31 reduce flushing, but, of course, that resulted in reducing  
32 some of our operating costs. I don't know if we can add  
33 any further operating initiatives.

34  
35 MR WHITTAKER: There has been an integration of the  
36 procurement. We actually had separate stores for our water  
37 and service business. Also our plant and fleet was  
38 operated separately. We integrated that with the rest of  
39 the council. We have actually had other works done by our  
40 water and sewer people. Some of our mechanical and  
41 electrical works have been done by our water and sewer  
42 people for other parts of our entity, being obviously  
43 parks, roads and stormwater, which generated an income  
44 stream internally.

45  
46 MS CHADWICK: That sounds like a series of controls  
47 implemented in the course of the four-year period. Looking

1 forward, how are you planning on building on that in the  
2 next four years to generate future operating expenditure  
3 efficiencies?

4  
5 MR WHITTAKER: Obviously the work that we are doing  
6 jointly with Gosford City Council is the number one service  
7 delivery framework that will actually generate, we believe,  
8 significant savings. It will not just deliver an  
9 integrated service delivery model where the systems,  
10 I guess, abut and obviously feed each other, but it is  
11 those behind-the-scenes services and costs that we believe  
12 will actually be driven quite significantly down.

13  
14 We have certain CPIs that we will use our best  
15 endeavours to deliver. It will not mean a halving of the  
16 costs of the two entities. We believe it should be  
17 around about the 20 to 25 per cent that we are targeting  
18 for a reduction in our total costs - this is what we hope  
19 for Wyong Shire Council. There has to be the costs over  
20 the next two-year periods to deliver that.

21  
22 I heard the previous question that was asked of  
23 Gosford, but we are looking at 30 June 2021 as being the  
24 turning point, and in that pricing submission, there should  
25 be a real fundamental driving down for reduced corporate  
26 service costs, which should then ultimately mean either  
27 holding the price or - depending on what the market is  
28 doing in regards to inflation and the like or whether our  
29 system is increasing - a possible decrease in price for our  
30 consumer.

31  
32 MR McDONALD: Remember we are also looking at improved  
33 efficiencies through better IT use in the field, say, with  
34 field tablets, and providing our staff with direct access  
35 to information. But a lot of our capital renewal works  
36 program too is based on trying to reduce ongoing  
37 operational costs. So we are targeting those areas where  
38 there is already a high operating expenditure and making  
39 sure that a capital works program targets that.

40  
41 MR CASHIN: This relates particularly to our sewerage  
42 treatment area, where we have been replacing inefficient  
43 motors with much more efficient motors and we are getting  
44 quite a good payback.

45  
46 MR WHITTAKER: Mr Chairman, I would like to present To  
47 IPART something really exciting that we are doing. This is

1 a joint venture once again between Gosford City Council and  
2 Wyong Shire Council around the operation costs. We are  
3 actually presently before Deputy President Harrison in the  
4 Industrial Relations Commission. We are working through a  
5 model that will, hopefully, deliver a different industrial  
6 relations agreement. Over 30 per cent of our recurrent  
7 costs are obviously in salaries and wages. If we can  
8 deliver a model that provides more responsiveness to our  
9 consumers, as our consumers' needs change over the next  
10 four years and plus, then our operational expenditure  
11 should change accordingly.

12  
13 THE CHAIRMAN: When you say "a model", what do you mean?

14  
15 MR WHITTAKER: It is a new award, basically. That is what  
16 we are looking for.

17  
18 THE CHAIRMAN: To get more flexibility in the award?

19  
20 MR WHITTAKER: That is correct, yes. It relates to  
21 starting and finishing in the field, span of hours, spread  
22 of hours - quite innovative outcomes.

23  
24 THE CHAIRMAN: I was going to suggest that we have one  
25 more question from Amanda and Lucy, then a couple of  
26 questions from the floor, and then we will revert back to  
27 some more questions on the Central Coast Water Corporation.

28  
29 MS CHADWICK: I was going to ask for your comment between  
30 the relationship between the over-expenditure on opex and  
31 yet in relation to the outputs that were included in the  
32 last determination, there were areas of under-delivery, so  
33 how you see that trade-off of the value for money that  
34 consumers have received in the last four years?

35  
36 MR CASHIN: Can you repeat that, please?

37  
38 MS CHADWICK: So opex was overspent, yet against the  
39 outputs that were included in the last determination, there  
40 are some areas of under-delivery. So how should the people  
41 who live in Wyong regard that transaction?

42  
43 MR CASHIN: I think the biggest area, from memory, of  
44 under-delivery was in water quality and customer complaint.  
45 They were directly related to the commissioning of the  
46 Mardi to Mangrove transfer system where we had a different  
47 water source, changes to the dam and the introduction of

1 manganese into the system. Through that commissioning  
2 process - the system changes associated with pumping from  
3 the Mardi water treatment plant up to Tuggerah 2 reservoir  
4 and the hill rather than directly into the system -  
5 combined with not flushing over the last four years,  
6 because of the drought and because of the cost, that got a  
7 spike of dirty-water complaints.

8  
9 MR WHITTAKER: I think a really important point is around  
10 our response to the drought. As a result of that, I would  
11 hate to say that there was a little bit of rushing to find  
12 solutions, and when that happens, the effort that goes into  
13 planning and design costs money and a lot of those are  
14 still yet to be brought into place. You can imagine it was  
15 brought forward in an accelerated way in an environment of  
16 concern around water security and delivery to our consumer.

17  
18 When I arrived and I had a look at a number of the  
19 staff, we had a number of external consultants. They were  
20 clearly brought on board to help us with the intellectual  
21 property around the planning and design of future-proofing  
22 the Wyong area in regards to drought.

23  
24 MR McDONALD: Can I make a comment too. You made a  
25 statement about under-delivery in capital. May I point out  
26 that Mardi to Mangrove, which was the largest single  
27 projects the two councils have done since the Mangrove  
28 Creek Dam was constructed in the early 1970s, was fully  
29 delivered in-house and we delivered it \$6 million under  
30 budget. I know we did not meet the capital works target of  
31 \$120 million, but I would say that that \$6 million is  
32 certainly not an under-delivery.

33  
34 THE CHAIRMAN: Thank you, Greg. We will have a couple  
35 of questions from the floor.

36  
37 MR WAGNER: This question is for Gosford Council, I  
38 suppose, because I am a Gosford constituent. My name is  
39 Rendall Wagner. I am just a resident, from Point Clare.

40  
41 Council is currently undertaking a water quality  
42 assurance program which is due to be finished by 1 July  
43 2014. I suppose my question is: should we be paying more  
44 money and increased costs when this program has not been  
45 finalised and why would we want to be paying more money  
46 for water if that water quality assurance program has not been  
47 finalised? I know that in Wyong, you just mentioned that

1 flushing had been reduced because of the drought, but in  
2 the peninsula area, water quality is actually a problem a  
3 lot of the time. That has been recorded many times in the  
4 papers. So that is my question.

5  
6 THE CHAIRMAN: Thank you, Randell. Stephen or Elizabeth  
7 would you like to answer that question?

8  
9 MS KNIGHT: Thank you very much for your question.  
10 I think that the water quality assurance program you are  
11 referring to is the management system. I would like to  
12 assure you that, yes, it is a management system that we  
13 have been building up over a period of time. It is also  
14 something that Gosford has been doing proactively before  
15 the legislation that mandates that will come into effect;  
16 that is, some of the changes in the Public Health Act.

17  
18 What the system does is it documents, formalises and  
19 captures processes that are already in place. We have very  
20 skilled operators, but unfortunately they have a lot of  
21 knowledge in their heads, as is the case across the state.  
22 So part of what the management system is about is capturing  
23 that, documenting the procedures that they use, the trigger  
24 levels for changing how we operate the plan. That is what  
25 the management system is about; it is capturing that  
26 information. We can then be prepared and have standardised  
27 procedures so that the operator who is on on a certain day  
28 does things in exactly the same way as any other operator.  
29 We are certainly committed, because we recognise the  
30 benefits, to having a formalised system which is in line  
31 with the Australians drinking water guidelines and the  
32 Public Health Act.

33  
34 In terms of discoloured water issues, yes, the council  
35 has had problems with that over the last few years, but  
36 we have also seen significant improvements. We had very  
37 scary numbers, and I empathise with anybody who has ever  
38 received discoloured water. We were getting quite high  
39 rates - 96 per 1,000 properties - but we have managed to  
40 drop them down year after year. We were about 56, then  
41 I think we were about 36. We are currently just under 10  
42 complaints per 1,000 properties.

43  
44 We still have more work to do, but there have been  
45 improvements, and that has been because we have brought  
46 back on line these flushing programs. There is an  
47 operating cost associated with those flushing programs, but

1 there is also an operating cost associated with not doing  
2 them and that can significantly affect our customers. So  
3 we are working to continue to improve the quality of water  
4 that we provide to customers, and I understand your concern  
5 if that has been affecting you directly.

6  
7 THE CHAIRMAN: Thank you Elizabeth. Is there another  
8 question from the floor?

9  
10 MR CONROY: My name is Michael Conroy. I am a ratepayer  
11 in the Gosford area. This is a question about the joint  
12 water corporation. I noticed in the presentation from  
13 Gosford City Council that it said that the capital costs on  
14 sewerage had gone up quite a lot in excess of what IPART  
15 had approved. I actually discuss that in my submission to  
16 IPART.

17  
18 My question in relation to the joint water corporation  
19 is: how will the joint water corporation help to improve  
20 the councils' work in actually designing and budgeting for  
21 their capital works particularly in the sewerage area? Is  
22 it the case that Wyong Shire Council has more expertise in  
23 this area and that its staff who will be transferred into  
24 the joint water corporation will tell Gosford City Council  
25 staff how to do their job better?

26  
27 THE CHAIRMAN: Thank you, Michael. That is a good  
28 segue into the Water Corporation.

29  
30 MR WHITTAKER: I am happy to provide supplementary  
31 information after Stephen responds. I think Gosford should  
32 respond to a Gosford ratepayer.

33  
34 MR CONROY: I am a former Wyong employee.

35  
36 MR WHITTAKER: I am happy to do it on that basis.

37  
38 MR GLEN: Thank you for the question. As was alluded to,  
39 1 July 2014 will see the transfer of asset management  
40 services staff across to the corporation. That will be  
41 from both councils, and what will happen is that the  
42 outcome of that joining of staff will see a better  
43 organisation of capital works programs because they will be  
44 there, they will be looking at a Central Coast-wide  
45 priority system and allocating the necessary funds.

46  
47 THE CHAIRMAN: Mike, would you like to add anything?

1  
2 MR WHITTAKER: What I think is the most important  
3 component is the intellectual property of the two groups,  
4 merging that into one and, with great respect to engineers  
5 saying that they are just a water engineering or a sewer  
6 engineer, they actually deal with both. With a lot of the  
7 pumps, a lot of the pumping stations, a lot of the pipework  
8 and a lot of the project management and the feasibility  
9 around capital works implementation, it is irrelevant  
10 whether it is water and sewer.

11  
12 Yes, our treatment plants are different, clearly they  
13 are separate, but you can actually see the delivery and  
14 implementation, which is the one that influences the most  
15 costs with those technical staff, and it does not matter  
16 whether it is water or sewer, per se. Therefore there are  
17 enormous efficiencies that will arise once the Central  
18 Coast Water Corporation is established.

19  
20 THE CHAIRMAN: Thank you very much, Michael.

21  
22 MS CHADWICK: While Gosford and Wyong are sitting at  
23 the same table, I have a question about the determination  
24 period and both councils have suggested a four-year period.  
25 At the time that the submissions would need to be made, the  
26 Central Coast Water Corporation will not be, in a sense,  
27 operating and incurring costs of the magnitude that it  
28 would after 1 July 2017. So why are you suggesting a  
29 four-year period, when that would mean that prices would be  
30 set immediately before that happens, and why not five?

31  
32 MR WHITTAKER: I am happy to answer that. Once again, it  
33 is around risk and being prudent. We are hoping to have  
34 the Central Coast Water Corporation all but established by  
35 1 July 2016 and we will be doing a lot of testing and  
36 commissioning. We will be making sure that the legacy  
37 costs to the councils and also the success of the Central  
38 Coast Water Corporation go through a one-year testing  
39 framework.

40  
41 We have done this modelling and this pricing  
42 submission on the basis that there will be a Central Coast  
43 Water Corporation group of some 300 plus staff, or whatever  
44 the board decides, and they will be developing that from  
45 1 July 2016 with IPART. Therefore, in that period, it  
46 should allow a really good transitioning arrangement and  
47 should allow the councils, once again, a good transitioning

1 out, and it is particularly around acceptance of risk and  
2 writing off of risk from the three entities.

3  
4 THE CHAIRMAN: Thank you.

5  
6 MR CASHIN: We want to go into the corporation with  
7 common prices across Gosford and Wyong. Under the current  
8 building block method, we cannot do that in terms of our  
9 service charges. If it were any longer than four years, we  
10 would be starting the corporation off with a set of Gosford  
11 charges and a set of Wyong charges and that just adds  
12 additional complexity and risk that we would like to avoid.

13  
14 THE CHAIRMAN: Thanks, Greg. Amanda?

15  
16 MS CHADWICK: The last question is about when to pay for  
17 the Central Coast Water Corporation. You have identified  
18 some of the benefits that the Central Coast Water  
19 Corporation would have for the community. I think it is a  
20 real issue in front of us as to whether or not, at the time  
21 that those benefits are being realised, the costs ought to  
22 be recovered from the community or whether they ought to be  
23 recovered before the community receives those benefits.

24  
25 MR WHITTAKER: That is why, literally at the end of the  
26 day, through the pricing submission, there really is only  
27 one quarter of costs in this pricing submission being  
28 recognised. Therefore, if you have a look at the level of  
29 risk for the two councils, we are picking up 75 per cent of  
30 the risk. We will know by 1 July 2017 how successful this  
31 is starting to be because we will have to have clear  
32 strategic documentation, good detailed business planning,  
33 good budgeting information, and there will even be some  
34 testing around KPIs on outcomes.

35  
36 So in that one year of 2016 to 2017, there will be  
37 good dialogue between the community but also with IPART  
38 in  
39 that, in the next four-year tranche, when we apply for that  
40 25 per cent, hopefully we will prove that we have it well and  
41 truly nussed down. You never know, we may even try and  
42 get more, but I suspect not. So we have been very prudent  
43 in the allocation of only 25 per cent and we are picking up  
44 the rest.

45  
46 THE CHAIRMAN: Thank you very much, Gosford and  
47 Wyong councils. Thank you very much for a very interesting  
presentation. Let us move on to the next item on the

1 agenda, which is the Public Interest Advocacy Centre.

2  
3 PUBLIC INTEREST ADVOCACY CENTRE

4  
5 MR DERUM: Thank you, Mr Chairman, and I thank IPART  
6 for holding this hearing and for the opportunity to appear  
7 before it. My name is Oliver Derum. I am a policy officer  
8 in the energy and water consumers advocacy program at the  
9 Public Interest Advocacy Centre.

10  
11 Just to give you a quick overview of what I will talk  
12 on today, there are certain aspects of the proposed price  
13 rises and the impacts which I think should be emphasised.  
14 I would also like to talk about customer assistance  
15 measures and the length of the determination.

16  
17 Just by way of further introduction, the Public  
18 Interest Advocacy Centre, or PIAC, is an independent  
19 non-profit law and policy organisation. We operate the  
20 energy and water consumers advocacy program, which works  
21 in the interests of residential consumers with a particular  
22 emphasis on low income and vulnerable consumers, and we  
23 receive funding from the New South Wales Department of  
24 Trade and Investment to carry out this work.

25  
26 The proposed price increases for Gosford City Council  
27 are 53 per cent in real terms over four years. Due to the  
28 variable nature of increases across the components, there  
29 will be different increases depending on how much water  
30 someone consumes. There is a 140 increase in the water  
31 service charge, an 85 per cent increase in the stormwater  
32 service charge, 53 per cent in the water service charge,  
33 and 27 per cent in water usage. This equates to a 59 per  
34 cent increase if you are only using 100 kilolitres of water  
35 a year, or 40 per cent if you are using 750 kilolitres a  
36 year.

37  
38 In the case of Gosford, I think it is also worth  
39 noting that the council has proposed an 18 per cent  
40 increase in year one of the determination followed by  
41 increases of 10 per cent in year 2, and 9 per cent in years  
42 3 and 4 for customers using 200 kilolitres. The timing  
43 means that the increase will be even more severe with the  
44 largest rise in the first year.

45  
46 For Wyong Shire Council, the increase is 45 per cent  
47 in real terms over four years. That is an increase of

1 50 per cent in the sewerage service charge, 42 per cent in  
2 the stormwater service charge, 37 per cent in the water  
3 service charge, and 25 per cent for water usage. Again  
4 this translates to larger increases for those people who  
5 are using smaller amounts of the water. I note in the case  
6 of Wyong Shire Council that the increases are smoothed  
7 almost perfectly over four years for a household using  
8 160 kilolitres of water.

9  
10 This graph illustrates the increases for Gosford City Council  
11 and Wyong Shire Council compared with Hunter Water  
12 at the bottom. There have been allusions from both  
13 councils about the burden of increased electricity prices,  
14 but I would note that the increases shown there are at  
15 least comparable, if not slightly larger, than the  
16 increases residents in this area have faced with their  
17 electricity price over the past five years.

18  
19 A typical resident in the Gosford area will face an increase  
20 of \$609 in real terms by the fourth year of the proposed  
21 four-year determination and someone in Wyong will  
22 face an increase of \$512. PIAC believes that these are not  
23 insignificant amounts.

24  
25 In terms of customer assistance, the key measures that  
26 I would like to talk about are rebates, the availability of  
27 the Centrepay service, payment assistance schemes,  
28 promoting customer assistance measures and reporting  
29 customer hardship performance.

30  
31 Under the Local Government Act, the rebate which  
32 councils are able to pay is capped at \$87.50 for water and  
33 sewerage service charges, or \$175 in total. This amount  
34 has not increased since the Act was introduced in 1993.  
35 IPART highlighted this in its 2009 determination for  
36 Gosford and Wyong councils. It also noted that in  
37 comparison to the rebates available to Hunter and Sydney  
38 Water, the rebates were extremely low. However, the  
39 increases have not been occurred, as this would require  
40 amendment of the legislation.

41  
42 Each council also offers an additional rebate.  
43 Gosford City Council offers eligible pensioners a rebate of  
44 50 per cent on their water consumption, which is capped at  
45 \$37.86 a year. While PIAC welcomes the existence of this  
46 rebate, we note that the allowance is exhausted at an  
47 extremely low level of consumption - 36 kilolitres at the

1 current price of \$2.12, and this would drop 28 kilolitres  
2 if the proposed 2016/17 rate of \$2.70 per kilolitre was  
3 granted by IPART.  
4  
5 PIAC would like to see the cap on this rebate removed  
6 or at least increased while retaining the percentage basis  
7 for consumption to allow the rebate to increase in line  
8 with water price increases. Wyong Shire Council offers a  
9 50 per cent rebate on stormwater service charge that  
10 follows this model of increasing with cost increases. The  
11 rebate is worth \$41.26 in 2012/13, which would increase to  
12 \$76.37, excluding inflation, if the council's proposed  
13 price increases were approved.  
14  
15 PIAC also notes that both councils have expressed support  
16 for a New South Wales government review of the way  
17 pensioner rebates for water and sewerage are provided while  
18 also noting that the financial impact of any changes on  
19 councils would need to be considered. PIAC would also  
20 support such a review.  
21  
22 The Centrepay service is offered by Centrelink and  
23 allows low-income consumers to have bill payments deducted  
24 from their regular benefit. While the service is free to  
25 consumers, there is a cost associated with its availability  
26 to service providers. However, I can report, based on  
27 recent discussions with a major electricity provider, that  
28 it considers the service to be very much in its interests,  
29 and the cost of providing the service is outweighed by the  
30 extra income it provides and the security surrounding that  
31 cash flow from low income consumers.  
32  
33 PIAC calls for Gosford and Wyong councils to allow the  
34 use of Centrepay as part of its 2009/13 pricing submission.  
35 I would also note that New South Wales legislation obliges  
36 electricity retailers to allow their hardship costing as  
37 access to Centrepay and PIAC believes that this should also  
38 apply to water.  
39  
40 Payment assistance schemes operate in the form of  
41 emergency assistance to customers of utility providers.  
42 The schemes provide assistance to customers who are unable  
43 to pay their bills due to sudden financial hardship or an  
44 emergency situation, so they are therefore not compliant to  
45 low income consumers, but it could be someone on a more  
46 generous income who faces a sudden cost. The schemes work  
47 in tandem with community organisations, which assess a

1 customer's eligibility and put forward assistance under  
2 such programs, which is then provided either as a direct  
3 credit to a customer's bill, or in the form of a voucher,  
4 which can then be used to pay the bill. That assistance is  
5 normally given in \$30 increments.  
6  
7 Hunter Water recently estimated that its payment  
8 assistance program costs all customers 14 cents per bill.  
9 PIAC acknowledges that the costs for the smaller councils  
10 may be higher. Nonetheless, we believe that a payment  
11 assistance scheme would provide an option to support  
12 consumers in both councils at almost negligible cost to the  
13 overall consumer base and we think there would be great  
14 benefit in doing so.  
15  
16 Promoting customer assistance measures: we heard from  
17 Gosford City Council earlier that it has a low  
18 participation rate in their hardship program. Gosford  
19 Council states in its submission that there are only ten  
20 applications per year to the hardship committee. Wyong  
21 Council, at the same time, states that it receives about  
22 100 applications to its hardship committee from more than  
23 2,000 customers who are on payment plans. PIAC believes  
24 that these figures are low and that that may be due in part  
25 to the need to improve efforts to promote their  
26 availability to the customer base.  
27  
28 PIAC recommends that, to this end, both councils  
29 should partner with community organisations to promote the  
30 availability of their customers assistance measures. These  
31 organisations often have well developed communication  
32 networks and provide newsletters which are well read by the  
33 target audience. Advertising in these publications can  
34 normally be done at little or no cost.  
35  
36 Finally, PIAC would also like to see both councils  
37 produce a yearly report on customer hardship performance.  
38 This report could include figures on the number of people  
39 on payment plans, including the number who drop off such  
40 plans without completing them, the number of people  
41 receiving rebates, and the number who have their water  
42 supply disconnected or restricted.  
43  
44 Performance regarding customer hardship and assistance  
45 should be measurable and reportable. Such a report would  
46 be a valuable tool in assessing the effectiveness of each  
47 council's hardship proposal. It would also facilitate a

1 cycle of continuous improvement in efforts to address  
2 customer hardship and assist low income and vulnerable  
3 consumers.  
4  
5 In terms of the length of the determination period,  
6 PIAC favours a four-year determination period. We believe  
7 that this would offer a balance between giving the councils  
8 certainty regarding planning and investment decisions, at  
9 the same time balancing the risks consumers face of having  
10 to wait for gains in operational and water efficiency made  
11 earlier in the determination period to be passed through.  
12 And we acknowledge that there are also considerations in  
13 terms of the determination period regarding the creation of  
14 the Central Coast Water Corporation.  
15  
16 Speaking of the Central Coast Water Corporation, PIAC  
17 notes that its impending creation creates some  
18 complications for the next determination period. In  
19 particular, we are concerned that if councils recover  
20 revenue above efficient levels and then do not participate  
21 in the following price determination period, it may be  
22 difficult to reconcile that over-recovery.  
23  
24 Customers of both councils - I understand, having  
25 listened to Mr Whittaker, that it is \$6.2 million combined,  
26 not each ,and I apologise for that - are being asked to  
27 come up with that amount as part of this proposal. In  
28 light of that outlay, PIAC is anxious that consumers  
29 receive benefits through the establishment of that new  
30 corporation, for example, through the JSB or benefits from  
31 the corporate framework, about which we have heard, as  
32 quickly as possible following the transition. Thank you.  
33  
34 THE CHAIRMAN: Thank you very much, Oliver. Do you  
35 have any questions, Lucy?  
36  
37 MS GARNIER: You have actually managed to cross off  
38 most of my questions. There is just one question left that  
39 I would like you to outline a bit further. You raised a  
40 number of things in your submission and in your  
41 presentation, so which issue or affordability option do you  
42 consider to be the most beneficial and would get the most  
43 gain?  
44  
45 MR DERUM: Given that the councils' hands are really tied  
46 in terms of increasing the overall rebates, we think the  
47 payment assistance scheme is the most important. Not only

1 do such schemes provide benefit to low income and  
2 vulnerable consumer but, as I mentioned, other consumers,  
3 who may have to pay a funeral, for example, could also  
4 access that. I would acknowledge that setting up such a  
5 scheme would be more complicated than setting up Centrepay,  
6 though. So if you are looking for the greatest return for  
7 effort, allowing customers to access Centrepay would be the  
8 priority.  
9  
10 MS GARNIER: Thank you.  
11  
12 THE CHAIRMAN: Thank you, Oliver. We have time for one  
13 question from the floor for Oliver. Yes, Randell?  
14  
15 MR WAGNER: The question is whether we have any  
16 information available on defaults. I am not sure if you  
17 can answer this; maybe you can. This may give us an idea  
18 of the community assistance needs, and I noted that  
19 Elizabeth said it was non-existent. Do we have any  
20 statistics available on defaults of payments with either of  
21 the councils?  
22  
23 MR DERUM: Not to my knowledge and we would like to see  
24 both councils producing those statistics.  
25  
26 MR WAGNER: Thank you.  
27  
28 THE CHAIRMAN: Do either Gosford and Wyong want to say  
29 anything quickly about that?  
30  
31 MR WHITTAKER: Mr Chairman, through you, what we have  
32 is a very supportive framework where, for normal programs we  
33 can carry the payment plans for up to 12 months or for  
34 pensioners for two years. In addition, what happens is,  
35 under the Local Government Act, we actually do not have  
36 defaults; it goes against the property. So we work with  
37 people who have real hardship and it just continues to go  
38 against the property. You can imagine our figures are not  
39 anywhere near what the value of a property is and we do not  
40 draw down on it, so we have a very supportive framework.  
41  
42 THE CHAIRMAN: Thank you, Mike. Elizabeth?  
43  
44 MS KNIGHT: I just wanted to be really clear that I was  
45 not suggesting that there were not hardship issues.  
46  
47 THE CHAIRMAN: Indeed you did not.

1  
2 MS KNIGHT: It is certainly a very important issue and we  
3 want to target the most appropriate people.

4  
5 THE CHAIRMAN: Thank you, Elizabeth. Next on the agenda  
6 is the Council of Social Service of New South Wales, NCOSS.

7  
8 COUNCIL OF SOCIAL SERVICE OF NEW SOUTH WALES

9  
10 MS COOK: My name is Rhiannon Cook. I am representing  
11 the Council of Social Service of New South Wales. I would  
12 like to thank IPART for this opportunity to provide input into  
13 this price determination. NCOSS is the peak body for the  
14 community and social services sector of New South Wales  
15 and, as such, we represent the interests of vulnerable and  
16 marginalised people.

17  
18 I would like to start by asserting that access to  
19 clean, safe and reliable water is a human right, one that  
20 is recognised by the UN and most countries across the  
21 world, but we are concerned that the cost of the water and  
22 other essential services is becoming prohibitive,  
23 particularly for people on very low incomes including  
24 Centrelink payments.

25  
26 Anecdotal evidence from the organisations that are our  
27 members who provide financial counselling or emergency  
28 relief services suggest that the problem level of  
29 affordability is getting worse. They report seeing more  
30 and more people, including people who have never previously  
31 had to seek help and are embarrassed or reluctant to do so.  
32 Most people only seek help once they have reached crisis  
33 point. Once they have already entered into a cycle of debt  
34 that compounds the existing disadvantage, but we think  
35 there is lots that utility providers can do to prevent  
36 people from reaching that point to start with.

37  
38 I am going to focus on what we think that Gosford  
39 and Wyong councils could do to ensure they are providing  
40 an affordable service to all customers. I need to talk  
41 about two components to affordability. The first component  
42 is price and the second is usage. In relation to price, we  
43 are deeply concerned by the magnitude of the price rises  
44 proposed by both councils over the next four years. We do  
45 not have the technical expertise to be able to assess the  
46 necessity or otherwise of proposed infrastructure  
47 investments, but coupled with the funding required to

1 establish the Central Coast Water Corporation, we think  
2 that the price rises will have significant social impacts,  
3 particularly when they occur in the absence of a  
4 comprehensive and effective framework to support customers'  
5 experiencing hardship.

6  
7 PIAC has already described many of the important  
8 components of an effective hardship program, but I would  
9 like to reiterate some of the points that PIAC made. The  
10 first relates to payment plans.

11  
12 We think efforts should be made to identify customers  
13 who are experiencing hardship or who are likely to  
14 experience hardship and to put in place systems that  
15 support these customers and helps them to manage their  
16 bills. We recognise that the councils already have some  
17 systems in place, but we believe these could be improved  
18 including the option of Centrepay. We recognise that that  
19 would involve a cost to the councils, but that it is an  
20 enormously effective way of assisting many of the most of  
21 the vulnerable consumers to manage their bills and, over  
22 the longer term, it is also likely to benefit councils by  
23 increasing the number of on-time payments.

24  
25 The second aspect I would like to address is rebates.  
26 Compared with both Sydney Water and Hunter Water  
27 Corporation, the rebates offered by Gosford and Wyong are  
28 far from adequate. We understand that they are in part  
29 constrained by the Local Government Act and we strongly  
30 support the calls from both councils for the state  
31 government to review the Act. However, we also believe  
32 that councils are able to offer, and should offer, more  
33 generous rebates. We note that the existing additional  
34 rebates offered are capped, but should be linked to price  
35 increases.

36  
37 The third aspect is payment assistance. There will  
38 always be some customers who, for whatever reason,  
39 experience a financial crisis that makes it difficult to  
40 pay a bill on time. We think support should be available  
41 for these people. We note that, in the customer survey  
42 recently undertaken by Hunter Water, the majority of  
43 customers actually supported a small additional charge to  
44 their bills that supported an emergency payment scheme.

45  
46 The fourth issue is communication. We note that both  
47 councils provide some hardship assistance, but both report



1 that very few people access these schemes. If you look at  
2 the statistics, the socio-economic profile of both of these  
3 areas suggests that the level of need should actually be  
4 higher than in the Hunter and in Sydney areas. This  
5 suggests to us that the schemes are not well communicated.  
6  
7 We know that people are reluctant to seek help before  
8 reaching crisis point and we therefore think a more  
9 proactive approach to identifying customers in hardship  
10 should be adopted. We think the council should establish  
11 strong working relationships and referral pathways with  
12 community-based organisations as these are likely to be the  
13 first point of call for customers who are seeking  
14 assistance.  
15  
16 So far, I have looked at the price of water, but  
17 helping vulnerable consumers to manage their usage is  
18 another important component for providing an affordable  
19 essential service. Firstly, we would support reducing the  
20 proportion of fixed costs and increasing the proportion of  
21 usage charges to give people more control over their bills,  
22 send appropriate price signals, and avoid the  
23 cross-subsidisation of high-volume users. We note that  
24 Hunter Water and Sydney Water corporations are heading  
25 along those lines, but it does not appear that Gosford and  
26 Wyong are doing the same.  
27  
28 We also recognise that many low-income people are  
29 unable to implement water efficiency devices or measures as  
30 they do not have access to the necessary information or  
31 capital required. Both Gosford and Wyong councils say in  
32 their submissions that they have previously offered rebates  
33 for water-efficient appliances, such as washing machines,  
34 but we are unaware of any efforts to ensure that these or  
35 similar initiatives also benefit low income customers. We  
36 therefore suggest that the councils look at rolling out  
37 water efficiency initiatives in a way that makes them  
38 accessible to everyone or actually targets the low income  
39 customers. Examples could include the establishment of  
40 no-interest loan schemes or exchange programs that occur  
41 for very low cost.  
42  
43 To summarise, we think the councils should reconsider  
44 the magnitude of the proposed price increases, but if they  
45 are to be approved, it should be on the condition that the  
46 existing hardship programs are improved to ensure services  
47 are affordable for everyone addressing both the crisis

.12/11/201248 PRICE REVIEW  
Transcript produced by Merrill Corporation

1 services and supporting low income people to better manage  
2 water usage. Thank you.  
3  
4 THE CHAIRMAN: Thank you very much, Rhiannon. Amanda?  
5  
6 MS CHADWICK: Like PIAC, you have answered most of my  
7 questions. Gosford made an undertaking that it would be  
8 prepared to think about the design of hardship programs.  
9 Of your list of suggested programs, is there one that you  
10 would put forward as the priority?  
11  
12 MS COOK: I think they are all interrelated. I would  
13 agree with PIAC in that Centrepay should be a priority.  
14 I think that taking some preventative measures, as it were,  
15 to stop customers from reaching crisis point is probably  
16 the first step. Having the assistance there, should a  
17 crisis be reached, is also important, but the first step is  
18 probably the preventative proactive payment plan.  
19  
20 THE CHAIRMAN: There is time for a question from the floor  
21 for Rhiannon. Are there any questions? No?  
22  
23 Thank you very much, Rhiannon.  
24  
25 MS COOK: Thank you.  
26  
27 COMBINED PENSIONERS & SUPERANNUANTS  
ASSOCIATION OF NSW  
28  
29 THE CHAIRMAN: The next item on the agenda is the  
30 Combined Pensioners & Superannuants Association of NSW  
31 (CPSA). As no-one seems to be here, perhaps we should move  
32 on to the Property Owners Association of New South Wales.  
33  
34 PROPERTY OWNERS ASSOCIATION OF NEW SOUTH WALES  
35  
36 MR BANYARD: Thank you very much for the opportunity to  
37 present. My name is Rick Banyard. I am the vice-president  
38 of the Property Owners Association. The Property Owners  
39 Association is the major landlord group in Australia with  
40 outfits in each state. We basically represent about  
41 350,000 properties.  
42  
43 This morning we have heard from lots of groups who do  
44 not favour water, sewerage and drainage price increases.  
45 Those who have read the submissions will also note that  
46 there are a lot of concerns about rising prices.  
47

.12/11/201249 PRICE REVIEW  
Transcript produced by Merrill Corporation

1 I note that the two councils have used different  
2 household consumption levels in their comparisons. One has  
3 200 kilolitres and the other has 160 kilolitres. That was  
4 partly explained earlier this morning, but they still put  
5 two sets of figures side by side with different levels on  
6 them.  
7  
8 The pricing proposals put forward are based on major  
9 levels of fixed charges and a very minor level of user  
10 charges, contrary to what was suggested this morning.  
11 Gosford and Wyong both have around about 70 per cent fixed  
12 charges. That hardly reflects user pays principles.  
13 Therefore, only a minor part of the bill that the customers  
14 get is able to influence the consumer on their behaviour or  
15 attitude to their purchase.  
16  
17 Households with an activity level of water  
18 conservation may only use, say, 50 kilolitres of water.  
19 In that case, their fixed share will be 90-odd per cent.  
20 That just does not seem to be at all reasonable, given that  
21 we want to give this strong message of water conservation  
22 and environmentally friendly discharge of our material -  
23 clearly, water conservation, environmentally friendly  
24 disposal based on high levels of user pays. This is  
25 totally opposite to the price path.  
26  
27 I wish to home in on the issues of landlords and  
28 tenants. Landowners and tenants are not two classes of  
29 citizen. Likewise, landlords and owner occupiers are not  
30 two classes of landowners. Also, residential occupancies  
31 and business outfits are not two classes of occupiers. The  
32 price path proposal and the proponents' practices do not  
33 recognise this and treat each group differently, although  
34 I will note that nowhere in the submissions is there any  
35 indication of what discount is given to large-volume users  
36 and other people. They just keep on talking about  
37 customers and they forget that group. I think it was  
38 Gosford who had about 20 per cent of its consumption going  
39 to one of the groups that gets the discount.  
40  
41 Firstly, the POA believes that the price set by this  
42 determination should be the absolute price; that is every  
43 kilolitre that is sold by the authority, no matter who it  
44 is sold to, should be at exactly the same price. That also  
45 includes the transfers of water to Hunter Water.  
46  
47 Sewerage and drainage should also be equal. The GST,

1 for example, is the same for every pensioner and every  
2 multinational. Therefore, we say that water, sewerage and  
3 drainage should be the same. Secondly, tenants do not pay  
4 the water, sewerage and drainage bill at all. The landlord  
5 pays the bill. Worse still, all tenants do not pay the  
6 same rate to their landlord for the water used by them.  
7 Department of Housing clients are charged by the Department  
8 of Housing an estimated value for water.  
9  
10 We have a large number of people who are unmetered  
11 tenants. Unmetered tenants cannot be charged. We have a  
12 group of metered tenants. They can be charged, providing a  
13 whole lot of other things agreed to. We have boarders and  
14 lodgers who are not charged. We have group housing  
15 retirement homes and villages, all of which operate under  
16 different regimes, and the people in them may or may not be  
17 charged. That is the way the law spells it out. It is not  
18 the landlord's choice or it is not the choice of the owner  
19 of a block of land as to how it is done - basically the law  
20 spells out how it is done, the Residential Tenancy Act  
21 being one of those.  
22  
23 This brings us to the issue of metering. I ask the  
24 tribunal members if they can think of any products on sale  
25 to consumers that are not metered or measured. 100 litres  
26 of petrol, one pair of size 10 shoes, a dozen eggs, a train  
27 ticket to Strathfield, a 50-second mobile phone call, and  
28 even one seat in the gallery at this session - we measure  
29 everything. In the councils' case, they measure tip fees,  
30 garbage bin services all by single units. In fact,  
31 councils have books of fees and charges that are all based  
32 on single units - except we do not want to do that for  
33 water, sewerage or drainage, and in the case of sewerage  
34 and drainage, we do not even measure the volume of that  
35 material that is going out.  
36  
37 Even water has a fixed price plus a volume measure to  
38 top up as a result of the way the structure has developed.  
39 Water, sewerage and drainage should all be measured so that  
40 the consumers take delivery of the product and pay for the  
41 services they wish to.  
42  
43 Meters are cheap and very easy to install given the  
44 new electronic technologies, et cetera, that are available.  
45 Meters also offer considerable economic benefit to the  
46 supplier and can help identify distribution losses, water  
47 leaks, and all sorts of other issues. As much as 50 per

1 cent of households do not have metered water. Households,  
2 not properties, do not have metered water supplies and  
3 therefore have no means of being charged volumetrically for  
4 the amount of water being consumed. That group includes,  
5 as I said before, a large number of tenants.  
6

7 The PIAC presenter a little while ago, as well as some  
8 other people, raised all these issues about different  
9 rebates, incentive schemes and all of those things. You  
10 have to remember that nearly all of those are not able to  
11 be paid to landlords and the tenants are not able to  
12 benefit from them.  
13

14 A question was asked about: do the councils keep  
15 hardship statistics? I am going to suggest that you should  
16 ask that question of landlords because it is the landlords  
17 who wear the hardship costs of most of the tenants. The  
18 procedure is that landlords charge their tenants for water  
19 use, if they are eligible to and allowed to. Then the  
20 landlord is responsible for the cost of the bill to the  
21 tenant, the actual issuing of the bill to the tenant, the  
22 cost of checking the money back from that tenant. If it is  
23 done through an agent, the landlord pays an agent's  
24 commission for doing that.  
25

26 The landlord also wears the cost of the bad debt and,  
27 for that, the landlord gets no recompense whatsoever. Our  
28 association suggests that the landlord should be considered  
29 to be a reseller and paid by the water authority for  
30 providing that service. This determination should set a  
31 reseller's allowance.  
32

33 The Property Owners Association and my private  
34 submission add to the points that I have raised and raise a  
35 number of other issues.  
36

37 To conclude, we strongly advocate for a 100 per cent  
38 user pays system for every customer that is fully metered,  
39 with all services sold and at a single rate per unit. This  
40 will ensure that those who use the service pay for their  
41 own use and it will reward those for the efforts in  
42 conservation and environmental management that they  
43 practise for themselves. Whilst this may be uncomfortable  
44 for inefficient and poorly managed water authorities, it  
45 will allow competitors to enter the market and sell a  
46 standard product - competition being sufficiency,  
47 innovation and a much better product for the community.

1  
2 I welcome questions. Thank you.  
3

4 THE CHAIRMAN: Thank you very much. Any questions?  
5 Amanda?  
6

7 MS CHADWICK: Thank you, Mr Banyard. One of the things  
8 you mentioned when you were talking about individual  
9 metering was that it was cheaper and easier to install than  
10 we are often told by the water utilities. Can you point me  
11 to information that you think we should be considering as  
12 to why it is cheaper and easier to install?  
13

14 MR BANYARD: I am sorry, I only half heard that question.  
15 Did you say --  
16

17 MS CHADWICK: I am sorry. You were talking about  
18 individual metering and you mentioned it was cheap and easy  
19 to install, but we are often told the opposite by the  
20 utilities. Could you tell me the source of your  
21 information so that I can take that into account?  
22

23 MR BANYARD: Water meters have traditionally been out on  
24 the front fence with a solid block of brass around them.  
25 That is traditionally the way most of them have been set  
26 up. The domestic arrangements of people have changed very  
27 significantly. We have blocks of units, villas, and all  
28 sorts of other living arrangements, and the water  
29 authorities do not appear to have been prepared to go down  
30 the path of changing or considering how they are meeting  
31 things differently.  
32

33 There have been a few trials done already. There are a  
34 number of manufacturers on the market who are prepared to  
35 sell various types of meters. Some of them are as simple  
36 as a bandage that simply wraps around a pipe and induces  
37 the water flow to an electronic meter. That electronic  
38 meter can be in the water authority's head office and you  
39 would not even need a water meter reader to go around the  
40 street.  
41

42 Some of these items are very cheap and they are used  
43 extensively. When you go to Maccas and you press the  
44 button to get a drink out of the drink machine, it actually  
45 has a meter that measures the discharge and they know  
46 exactly how many millilitres of liquid go into the drink.  
47 Those meters are there are, but the issue is that the water

1 authorities have not been prepared to go down that path to  
2 look at them. Neither of the teams who have spoken this  
3 morning have mentioned anything to do with upgrading their  
4 metering technology and making use of all the new material  
5 that is coming

6  
7 MS CHADWICK: Thank you. Thank you, Mr Chairman.

8  
9 THE CHAIRMAN: Lucy?

10  
11 MS GARNIER: No questions, thank you.

12  
13 THE CHAIRMAN: Are there any questions from the floor for  
14 Rick? Yes, Oliver.

15  
16 MR DERUM: I wanted to ask if the POA had any thoughts  
17 about helping tenants benefit from water efficiency  
18 measures which would be particularly important under the  
19 model you propose of 100 per cent user pays charge?

20  
21 MR BANYARD: Landlords, for a number of reasons, have to  
22 endeavour to provide the very best properties that they can  
23 for the tenants to occupy. A tenant makes the choice, when  
24 entering a property, to select the property. They make the  
25 choice based on the quality of the property, the furniture,  
26 fittings, water supply arrangements and everything, and  
27 that is gauged against the price that the tenant is  
28 prepared to pay. Landlords have been very quick to work it  
29 out over a long period of time that if you put a cheap and  
30 nasty property on the market, you get cheap and nasty  
31 tenants and nobody goes anywhere. You end up with tenants  
32 in dispute and all sorts of things. I can assure that the  
33 property owners and the landlords that I represent work  
34 extremely hard on trying to do the very best thing.

35  
36 In New South Wales, under the legislation of the  
37 Residential Tenancies Act, under the new Act, there are now  
38 mandatory requirements to have water efficiency devices and  
39 the like as part of a house's fit-out. If you don't have  
40 those, you cannot pass the water costs on to the tenant.

41  
42 THE CHAIRMAN: Are there any other questions? Yes,  
43 Rendall?

44  
45 MR WAGNER: I am Rendall Wagner. I am a resident here.  
46 I have a question about demographics, because I think  
47 demographics of the area is extremely important for IPART

1 in making this determination. Recently ABS 2011 census  
2 data has been released. That has indicated that wages on  
3 the Central Coast, on average, are 30 per cent lower than  
4 comparable Sydney jobs. I am just wondering if you know  
5 whether there are similar statistics with rental property  
6 returns on the Central Coast compared with Sydney  
7 metropolitan rental property returns?

8  
9 MR BANYARD: Rental property returns do vary according to  
10 the location and they can vary according to the job  
11 prospects of that area. There is a whole range of issues  
12 that determine the values. The prices generally go up and  
13 down at much the same rate no matter where the location is  
14 unless there is an unusual circumstance. For example, in  
15 the Hunter Valley, there have been significantly higher  
16 rents in there because of the mining boom and the number of  
17 people wanting to go to that area. The mining crash that  
18 seems to be starting now is softening that process, but  
19 these changes come and go. There are suburbs in Sydney  
20 that are very popular and others are not.

21  
22 The rental prices vary according to all of those  
23 factors, and that's it. I hope I have answered your  
24 question.

25  
26 MR WAGNER: Well, the comparison between Central Coast  
27 and Sydney.

28  
29 MR BANYARD: I cannot give you the dollar comparison  
30 because the dollar varies from suburb to suburb and  
31 obviously the difference in price at Woollahra compared  
32 with the difference in price out at Menai, or somewhere  
33 like, that is quite different. Exactly the same thing  
34 applies here, and it would be exactly the same thing in  
35 Newcastle.

36  
37 But tenants are very clever in working out what is the  
38 correct value for money in a location. If tenants choose  
39 to go and live in Gosford and they want to live right next  
40 to the railway station, and this and that, they know that  
41 if that is what they want, they have to pay for it. If  
42 they are prepared to go up to Mangrove Mountain and live up  
43 there, it is a different ball game and a different set of  
44 circumstances. So tenants do adjust to that, and I guess  
45 the landlords have to then go and adjust property to match  
46 the tenants' needs. Water, sewerage, drainage, all of  
47 those things, are part of it. You can get places in rural

1 areas that are not on water, sewerage or drainage. They  
2 have a septic tank and rainwater tank, and then you have  
3 issues about who pays for the water that goes into the  
4 rainwater tank and all sorts of things.

5  
6 THE CHAIRMAN: Thank you very much, Rick.

7  
8 Let us move on now to the Total Environment Centre  
9 (TEC).

10  
11 TOTAL ENVIRONMENT CENTRE

12  
13 MR MARTIN: Thank you, Mr Chairman. Leigh Martin from  
14 the Total Environment Centre. I must confess to a degree of  
15 *deja vu*, as not only do I find myself in the same venue  
16 where we had the last pricing public hearing for Gosford  
17 and Wyong, but I am going to find myself making many of the  
18 same arguments about many of the same issues as last time,  
19 so my apologies to those members on the tribunal who have  
20 heard it before.

21  
22 The first point I would like to discuss is the  
23 appropriate period of the price determination. We do not  
24 have particularly strong or fixed views on this, but we  
25 certainly see that there is some value in a four-year  
26 determination because, first of all, it would bring us into  
27 a situation where the next determination coincides with the  
28 operation of the Central Coast Water Corporation. Also  
29 there is, I think, some value in maintaining alignment  
30 between price paths for Hunter Water and for Gosford and  
31 Wyong, given that there is a connection between the two  
32 systems and there are sales of water between the two  
33 utilities.

34  
35 I would just add the cautionary note that when we have  
36 concurrent pricing determinations in progress, it does make  
37 it somewhat difficult for a non-government organisation,  
38 such as ours, with limited resources, to give our full  
39 attention to both. Certainly that was an issue for us with  
40 the two determinations that are underway at the moment in  
41 being able to devote the resources needed to them.

42  
43 Probably the most important point for the TEC to make  
44 in this hearing is that we think there needs to be  
45 significant reform on price structures, and this is a point  
46 that we consistently make. We believe the levels of fixed  
47 charges on water bills are currently too high and there is

1 an over-reliance on recovery of revenue from fixed charges,  
2 being the water access charges, stormwater charges and  
3 sewerage service charges.

4  
5 That is a problem because it diminishes the control  
6 that customers have over their bills and that, in turn,  
7 reduce the incentives for reducing water use and it reduces  
8 the incentives to invest in water-efficient appliances and  
9 to retrofit homes because the rewards will not necessarily  
10 be there for customers to make those investments.

11  
12 In general, we believe there does need to be a  
13 reduction on the reliance on fixed charges. We have, in  
14 the past expressed a call for a move towards inclining  
15 block tariff pricing with a second tier that would target  
16 discretionary water use. We noted in previous  
17 determinations that both Gosford and Wyong councils  
18 expressed some interest in that proposal and indicated that  
19 they were investigating moving towards that. It is  
20 somewhat perplexing for us that, in that interim period,  
21 there has been no progress and no information on the  
22 suitability of inclining block tariff pricing.

23  
24 I guess a general comment I would make about utility  
25 submissions to IPART is they are very good at prosecuting a  
26 particular case and addressing quite clearly the points on  
27 which IPART has sought information. What we do not  
28 necessarily see is more information about the costs and  
29 benefits of alternative options. So we see an option  
30 proposed by utilities and they put forward their arguments  
31 as to why that is their preferred option. What we do not  
32 see, and what I think would be useful for consumers and  
33 other organisations, is some discussion of alternative  
34 options and what the costs and benefits of those might be.

35  
36 Whether we were to move to an inclining block system  
37 or whether we would simply have a single-tier price for  
38 water use, we believe that the amount of revenue recovered  
39 from volumetric charges should be increased and there  
40 should be a corresponding decrease in fixed prices.

41  
42 I would also carry that over to the issue of sewerage  
43 pricing - pricing for the sewerage services. At the  
44 moment, both councils recover their revenue from fixed  
45 charges. That is the proposal for the next determination.  
46 We have long been of the view that there should actually be  
47 usage charges for the amounts of effluent that are

1 discharged to the system.

2  
3 We were disappointed when Hunter Water's system of  
4 having volumetric sewerage uses charges was discontinued  
5 and - I will be making this point tomorrow - we note that  
6 that there has been some feedback from Hunter Water users  
7 that they are disappointed that that has reduced the  
8 control they have over their bills. Obviously we recognise  
9 there cannot be a perfect system in terms of metering the  
10 amounts of effluent discharged, but we do believe that the  
11 use of a discharge factor, such as Hunter Water previously  
12 had, is a superior approach compared with relying entirely  
13 on a fixed charge.

14  
15 Again there is much the same point to be made about  
16 stormwater and what we see typically in recovery of  
17 stormwater charges. It is a fixed charge. We believe that  
18 there should be some consideration on the amount of  
19 stormwater that a property discharges to the stormwater  
20 system. Obviously there would need to be an area-based  
21 component in terms of stormwater charges, depending on the  
22 size of the property. Those customers who invest in things  
23 that will reduce their discharge of stormwater to the  
24 system should receive rebates for reducing the contribution  
25 from their properties.

26  
27 In relation to stormwater, I guess we are disappointed  
28 that stormwater continues to be dealt with entirely as an  
29 engineering approach. What we have seen from the  
30 submissions of both councils is a focus on hard engineering  
31 approaches to management of stormwater. We would like to  
32 see some exploration from the councils of alternative  
33 approaches, including restoration of hard channels to more  
34 natural systems and some exploration of the costs and  
35 benefits of those.

36  
37 It is disappointing that, having made those points at  
38 a previous determination in our submissions and at the  
39 public hearing, I find there has actually been no forward  
40 movement in terms of progressing more enlightened  
41 approaches to stormwater management. Those are the key  
42 issues for us.

43  
44 There is one further issue that I want to touch on and  
45 that is the arrangements for prices on the transfers  
46 between Hunter Water and the councils. We are largely  
47 agnostic about the current arrangements for transfers

.12/11/201258 PRICE REVIEW

Transcript produced by Merrill Corporation

1 between Hunter and the Central Coast councils. We  
2 generally believe that they are appropriate. However, we  
3 were very interested to note that both the councils'  
4 submissions, and also the submission from Hunter Water to  
5 the Hunter Water determination, consider the option of  
6 inter-regional banking of water between Hunter Water and  
7 the Central Coast.

8  
9 We certainly think that is an option that needs to be  
10 explored, and we note that that is currently being  
11 considered in the Lower Hunter water plan. However, we  
12 would caution that, before we could actually make an  
13 informed comment on that, we would need to see a detailed  
14 assessment of the costs and benefits, including the impacts  
15 on the environment, particularly in regard to the effects  
16 that the ongoing transfers from the Hunter would have on  
17 the Hunter River, the Williams River and the Lower Hunter  
18 estuary. Those are issues that were identified in the  
19 assessment of Tillegra Dam.

20  
21 Potentially increasing transfers by water banking  
22 could amount to augmentation by stealth and we would want  
23 to see a very, very detailed assessment of the costs and  
24 benefits and also an assessment of the need for such an  
25 arrangement. I am just concerned that it seems to be  
26 discussed as almost a fait accompli. So we would urge the  
27 tribunal to give any such suggestions a high level of  
28 scrutiny.

29  
30 THE CHAIRMAN: Thank you very much, Leigh. Any  
questions?

31  
32 MS GARNIER: You started to talk about augmentation in  
33 your final points, and you have always endorsed using  
34 higher restrictions. If the costs incurred by the  
35 councils' customers are higher per kilolitre than the costs  
36 of augmentation, would you support augmentation measures  
37 then?

38  
39 MR MARTIN: I would say that considering those costs and  
40 benefits also means considering the environmental costs and  
41 benefits. In terms of whether we would accept augmentation,  
42 we would need to know what the environmental  
43 impacts of various augmentations options are and what the  
44 alternatives to those options for augmentation are. It  
45 should not simply be a numerical exercise based on finance  
46 and economics. There needs to be some consideration of the  
47 environmental costs and benefits. That also has an impact

.12/11/201259 PRICE REVIEW

Transcript produced by Merrill Corporation

1 on customers as well, because there is the issue of  
2 ecosystems services that are provided by healthy  
3 ecosystems, healthy rivers, healthy waterways. What we do  
4 not see much of in these processes is assessment of these  
5 ecosystem services and the impacts that augmentation  
6 options may have on those important services.

7  
8 MS GARNIER: I suspect there will probably be a very  
9 similar answer to the next question because again you have  
10 always endorsed recycle schemes --

11 MR MARTIN: Yes.

12 MS GARNIER: -- and they were commonly more expensive  
13 in dollars per kilolitre, but you still recommend them - on  
14 what basis?

15  
16  
17  
18 MR MARTIN: Well, I guess with the comment that assessment  
19 of recycling needs not just be considered on a dollar basis  
20 against augmentation options. I think the environmental  
21 costs and benefits need to be factored in. I am not sure -  
22 in fact I am not confident - that, at the moment, in the  
23 way that various options are assessed, the various  
24 environmental cost benefits are adequately perceived.

25  
26 MS GARNIER: I have one final question. Because on the  
27 Central Coast, we have a situation where population is  
28 increasing, how would the total Total Environment Centre  
29 recommend that the increasing needs of the new population  
30 are met in this area?

31 MR MARTIN: I'm not sure - what do you mean?

32 MS GARNIER: Because you have suggested that  
33 augmentation is not always the best solution, do you have any  
34 other ideas?

35  
36  
37  
38 MR MARTIN: I think you could revisit some of the options  
39 that were put forward in the water plan 2050 process. A  
40 number of options were put forward in that plan.  
41 Ultimately the one that we favoured, which was not adopted  
42 by the councils, was an increase in recycling in terms of  
43 environmental flow substitution into Wyong Creek below the  
44 weir. Also there are potential options in the future for  
45 the direct potable reuse, but that is probably the  
46 long-term option.

47

1 One of the things we noted about the environmental  
2 flow substitution option is that, in 10, 20 years hence,  
3 you could actually convert it back to a direct potable  
4 reuse approach.

5  
6 There are other options that have been considered in  
7 the past. We recognise that the Mardi to Mangrove pipeline  
8 has had an important contribution in getting the Central  
9 Coast out of trouble and in providing longer term supply  
10 security and also eliminating any need for Tillegra Dam  
11 such as there ever was. I question that there was ever a  
12 need, but, in any case, Mardi to Mangrove effectively took  
13 the Tillegra Dam off the table as an option for the Central  
14 Coast, but we know there are some major opportunities for  
15 recycling that were considered in the water plan 2050  
16 process and they are worth revisiting in the future.

17  
18 MS GARNIER: Thank you.

19  
20 MR COX: Can I draw you out on one issue which you have  
21 raised, and a number of other people have raised; that is,  
22 if you like, the move towards more reliance on user usage  
23 charges.

24  
25 I guess the issue about this for me is that most of  
26 the costs in those instances are, in fact, fixed. If you  
27 move more towards user charges, that means there will be a  
28 disconnect with the revenue base that fluctuates through  
29 time and payment usage and the costs don't. I think we  
30 have seen this morning, from the things that Gosford and  
31 Wyong were saying, that this would have implications for  
32 councils and the ratepayers - customers - at the end of the  
33 day. So there is a conflict of objectives here, if you  
34 like, in cost reflective pricing and encouragement usage  
35 pricing and the implications that that might have for  
36 efficiency, as it were. How do we balance these two  
37 objectives?

38  
39 MR MARTIN: I recognise that, from a utility's point of  
40 view, a higher reliance on fixed charges is attractive  
41 because it reduces the level of risk. It provides a  
42 greater degree of certainty in terms of their revenue. But  
43 I note that the tribunal has, in the past, considered  
44 various revenue adjustment mechanisms for utilities, and  
45 there has been some development of that in terms of Sydney  
46 Water for the last determination.

47

1 We think it is appropriate to have revenue adjustment  
2 mechanisms. If there is a severe over-spend or under-spend  
3 even, the tribunal could revisit a determination and make  
4 some adjustments over the course of a pricing period.

5  
6 MR COX: Thank you.

7  
8 THE CHAIRMAN: Are there any questions from the floor for  
9 Leigh? No? Thank you very much, Leigh.

10  
11 MR MARTIN: Thank you.

12  
13 THE CHAIRMAN: We will next have a presentation from  
14 Michael Conroy.

15  
16 MICHAEL CONROY

17  
18 MR CONROY: My name is Michael Conroy. I am a  
19 ratepayer in the Gosford local government area. Thank you  
20 very much for inviting me to spend some time here today. I  
21 should point out that I am a retired town planner and I have  
22 spent quite a bit of my career talking to engineers about water  
23 and sewerage issues, so I think I speak some of their  
24 language - not all of it.

25  
26 Today, in the time available, I would like to discuss  
27 three main issues: the first one is sewerage  
28 infrastructure and the capital costs, the second one is  
29 stormwater drainage, and the third one is the pricing  
30 structure that has been used up to now and is proposed in  
31 the next four-year period.

32  
33 When I first looked at the issues paper that IPART  
34 issued, I thought the increases and the expenditure by the  
35 councils over the current four-year period had not been too  
36 excessive in relation to what IPART had approved. Then  
37 I looked at the councils' submissions and discovered a  
38 totally different picture. It took me quite some time to  
39 realise the difference in Gosford's case, and I will mainly  
40 been talking about Gosford today. IPART's issues paper  
41 only went up to the last financial year, 2011/12, whereas  
42 Gosford's submissions included data, presumably from its  
43 budgets for the current year, 2012/13.

44  
45 I must say that, as some of the previous speakers have  
46 said, the concentration of the costs in terms of fixed  
47 service charges rather than user charges leads one to look

.12/11/201262 PRICE REVIEW  
Transcript produced by Merrill Corporation

1 at why are the fixed service charges so high. I have not  
2 gone into all the nuts and bolts of the IPART pricing  
3 methodology, but I assume that it is the capital costs that  
4 are having the big influence on the fixed service charges,  
5 so most of my submission concentrates on capital costs.

6  
7 I was somewhat alarmed when I looked at the submission  
8 of Gosford City Council. In section 3.6 of its submission  
9 there is a graph - figure 12 - which shows that the council  
10 had approval, and I can't remember what the approval was,  
11 but it spent \$60 million or proposed to spend \$60 million  
12 on sewage capital expenditure in the current financial  
13 year, which was almost as much as the three previous years  
14 in total. The \$60 million, therefore, is nearly half of  
15 the total capital expenditure for the four-year period. So  
16 my rough estimate from the graph was that Gosford Council  
17 is proposing to have spent \$128 million compared with the  
18 \$70 million that had been approved by IPART. I just wonder  
19 why do we have IPART issuing approvals to people if the  
20 councils can then go and expend nearly twice as much over  
21 the four-year period?

22  
23 The particular projects that caught my eye, because  
24 I think they were the biggest projects in that capital  
25 expenditure program, were the Kincumber sewage treatment  
26 plant upgrade and the Woy Woy sewage treatment upgrade.  
27 Being a citizen who is working, I guess, outside the main  
28 bureaucratic system, I rely on things like the council  
29 website for my information. On council's website there are  
30 still information sheets sitting there that were issued in  
31 2010 saying that the upgrade of the Kincumber sewage  
32 treatment plant was going to cost \$30 million, the upgrade  
33 of Woy Woy was going to cost \$10 million and that both  
34 projects were going to be completed by the end of this  
35 year.

36  
37 When I looked at table A.3 in the appendix to the  
38 submission of Gosford City Council, it showed that the  
39 council had already exceeded the budget for the Kincumber  
40 sewage treatment plant by the end of the previous financial  
41 year - so by June 2012. Council had already spent  
42 \$32.8 million, from my estimate, and that was 29 per cent  
43 more than had been approved by IPART.

44  
45 The curious thing that I then found was that, on the  
46 Woy Woy sewage treatment plant, Gosford council had spent  
47 only \$1.4 million, which was only 37 per cent of what had

.12/11/201263 PRICE REVIEW  
Transcript produced by Merrill Corporation



1 been approved by IPART.

2  
3 There are two questions: why is the Kincumber sewage  
4 treatment plant costing so much, particularly when council  
5 says in its submission that the work on two of the major  
6 projects, the aeration system and the digesters, had been  
7 delayed? We heard this morning that the reason the council  
8 is giving for that work being delayed was the change in  
9 scope of the projects and that they had discovered  
10 something that they had not allowed for in their estimates,  
11 which was that the electricity supply, the high voltage  
12 supply for the sewage treatment plants, was not adequate.  
13 So the first question is: why weren't these things planned  
14 for in the initial estimates that were made? They are  
15 supposed to be professional engineers.

16  
17 The second question that occurs to me is: is there  
18 something going on where, if you run out of money for the  
19 Kincumber sewage treatment plant upgrade, you divert funds  
20 from the Woy Woy sewage treatment plant? This question  
21 actually occurred to me when I was looking at some of the  
22 issues that I am going to talk about.

23  
24 That is my first concern about what has been happening  
25 historically over the current four-year period and I am  
26 wondering whether this will continue in the next four-year  
27 period. I notice that, in one of the tables in appendix B  
28 in the council's submission, I don't think there is any  
29 reference to any work being done on the Woy Woy sewage  
30 treatment plant. I can only assume, therefore, that either  
31 they have completed that project as part of this  
32 \$60 million blow-out they are having this year or else the  
33 work will not be done as previously planned.

34  
35 The second aspect of the sewage expenditure that  
36 I also find disturbing is the so-called Cockle Bay towns  
37 project. For the sake of those members of IPART who are  
38 not familiar with the Central Coast, and in particular the  
39 Gosford area, the Cockle Bay towns are not towns. They  
40 are, in fact, a corridor of rural residential development  
41 along the roads between Empire Bay and Kincumber. They  
42 are areas of rural residential development where people have  
43 chosen to live on large blocks of land, say, about  
44 2 hectares, some smaller, probably some larger.

45  
46 There are 300 rural residential properties that have  
47 been identified by council in this project and all of those

1 properties are not connected to the sewerage system. They  
2 have never previously been proposed to be connected to the  
3 sewerage system. They all have onsite disposal of  
4 effluent, which has to be approved, I presume, by council's  
5 health and environment people.

6  
7 The cost of the Cockle Bay towns project is shown in  
8 council's submission to be \$13 million, which works out at  
9 \$43,000 per property. Now, the council, in the information  
10 that is on its internet site, has letters that it has  
11 issued to the residents in that area. Council claims that  
12 50 per cent of the property owners have indicated a  
13 willingness to connect to that system. My understanding is  
14 that, when Gosford Council wrote to the property owners,  
15 the property owners were offered a range of different costs  
16 and asked which ones they would agree to and my  
17 understanding is it was only the lowest cost in the range  
18 that the 50 per cent of property owners agreed to.

19  
20 There is a historical aspect to this. As I said, none  
21 of those properties were previously proposed to be  
22 connected to a sewerage system. The sewerage system that  
23 that has been developed in the Gosford area since the  
24 mid-1980s or early 1980s was partly funded by a levy that  
25 was being paid by the urban property owners as far back as  
26 anyone can remember. When my family moved to this area in  
27 1981, we were paying that levy. In a sense, we ratepayers  
28 in the urban area actually own that system or we certainly  
29 have a big share in that system. We were paying that levy,  
30 in our case, up to 1989 when the sewer actually came  
31 through our area.

32  
33 As I said, the people on these rural residential  
34 properties have never paid that levy. There is no proposal  
35 to compel the people in the Cockle Bay towns to connect to  
36 the sewerage system if it is installed. The council has  
37 told them that they will be given a loan by the council to  
38 cover the cost of the capital contribution, the \$43,000  
39 per lot, and they have been told that they would have up to  
40 20 years to repay that loan.

41  
42 It does not make sense to me that the people who have  
43 chosen to live outside the urban areas should then be  
44 offered all the advantages of living in these rural  
45 residential areas and then expect to be subsidised by the  
46 people who live in the urban areas. Also they will  
47 obviously have a far more cost efficient system, because we

1 all live next to each other. I literally have my  
2 neighbour's sewer running through my property. We have a  
3 block of units behind us and they are connected to a sewer  
4 that runs across the bottom of our backyard. I don't mind  
5 that, but I do mind paying for a sewer out in the Cockle  
6 Bay towns.

8 I am sorry, I am probably taking longer than I have been  
9 allowed. The second issue I want to cover is stormwater  
10 drainage. I am going to disagree with the person  
11 from the Total Environment Centre on some of what he  
12 was saying. It is interesting that, in council's  
13 submission, they say that they have spent considerable  
14 amounts on stormwater drainage in the last four-year  
15 period. The curious thing is that, in the table that I was  
16 referring to before, table A.3, there were three projects  
17 proposed - Narara Valley, Woy Woy and Pearl Beach - that  
18 got deferred, and there were projects which had not  
19 appeared in table A.3 - projects at Kincumber, North Avoca,  
20 Macmasters Beach and Pretty Beach - which were given  
21 substantial funding yet do not appear in that table.

23 I can understand that some kind of projects might  
24 arise because of emergency situations due to areas being  
25 discovered to be flood prone that previously were not  
26 thought to be flood prone, but I am wondering whether the  
27 same situation has arisen there as occurred with the  
28 sewerage system. Maybe it is that the council discovered  
29 some unforeseen capital projects that needed money. It had  
30 these projects that had been approved by IPART for funding  
31 on the western side of Brisbane Water, and the money from  
32 those three projects got diverted to the areas like  
33 Kincumber, Avoca and Macmasters Beach.

35 I should point out - and this is where I disagree with  
36 the Total Environment Centre - that probably about 90 per  
37 cent of the Woy Woy peninsula, which is the area I live in,  
38 does not have any stormwater drainage in the streets. We  
39 are not discharging any stormwater from our properties, so  
40 I just don't see why we should pay a variable charge for  
41 that.

43 As I pointed out in my submission, there was a project  
44 done by the council in the early 1990s where it identified  
45 a need for \$30 million worth of work required on the trunk  
46 drainage system. Ever since that recommendation was made  
47 for that project, we have been paying a drainage levy on

1 our rates towards a trunk stormwater drainage system. The  
2 levy started off at \$40 per year. It has currently gone  
3 up, through indexation, to \$82 per year and, of course, it  
4 is proposed to be increased again in the next four-year  
5 period.

7 On top of that, anyone who carries out a development in a  
8 medium density zoned area on the Woy Woy peninsula has  
9 to make a section 94 contribution for trunk drainage. As  
10 an example, council approved a development down at the  
11 other end of our street - I think that includes seven  
12 villas for people over 55 - on what used to be a double  
13 residential block of land and they are required to pay  
14 \$10,000 towards the trunk drainage system.

16 All the residents in detached properties are paying  
17 this drainage levy, any developer that is carrying out  
18 medium density development is paying section 94  
19 contributions - and I know you are looking at this issue  
20 perhaps this afternoon as part of your other inquiry - so  
21 the question I am asking is: where is that money being  
22 spent, because I have seen little or no evidence of trunk  
23 drainage works being carried out on the Woy Woy peninsula?  
24 There was something included in the program for the last  
25 four-year period, but, as I said, it got deferred.

27 The last issue I would like to talk about is pricing  
28 structure and as a number of other presenters have said,  
29 the system is too heavily weighted towards fixed service  
30 charges.

32 Using council's own figures from its submission,  
33 somebody who is a typical user, using 200 kilolitres of  
34 water, will only pay 37 per cent of the total water bill  
35 as variable charges. So it does not matter how much water  
36 you use, 63 per cent of your water bill will not vary.  
37 You can double your water use and your charges will only  
38 increase by 37 per cent. I am not an economist, but  
39 I think that is a system that provides economies of scale.  
40 My understanding is if you get economies of scale, it is  
41 an incentive for you to increase your usage.

43 That is why, in my submission, I have said that one  
44 way we can tackle this issue is to start charging a  
45 variable charge for use of the sewerage system. I am aware  
46 that the issue that will immediately be raised is: how  
47 will be meter the usage of the sewerage system? However,

1 as has already been mentioned this morning, I understand  
2 that the Hunter Water Corporation used some kind of a  
3 factor that related sewerage use to the amount of water  
4 that a household used. That is still in operation,  
5 I understand, with industrial and commercial users, that  
6 they also have factors for estimating sewerage use by each  
7 property.

8  
9 I think this imbalance between the fixed and variable  
10 charges is just getting worse in the proposal that council  
11 has put forward. It is proposed that the variable charges  
12 will increase by 27 per cent over the next four-year period  
13 whereas the fixed charges will increase by 69 per cent.  
14 That is what is leading to this imbalance that some of the  
15 other submissions have referred to; namely, that households  
16 which have low water usage will have a far greater  
17 percentage increase in their water and sewerage rates than  
18 households which have a high water usage. This is why I am  
19 supporting what they are proposing in terms of charging for  
20 use of the sewerage system.

21  
22 THE CHAIRMAN: Thank you very much, Michael.

23  
24 I wonder whether Gosford would like to respond to any  
25 of the points that Michael has raised particularly on the  
26 sewerage and stormwater.

27  
28 MS KNIGHT: There were quite a few points. I will try to  
29 remember the key ones and hopefully that will help clarify  
30 it.

31  
32 With regard to the Cockle Bay towns, yes, we  
33 definitely recognise that everybody on the sewerage system  
34 at this point has paid into what we refer to as a sewer  
35 buy-in scheme, which is a payment over many years to  
36 contribute to that system, and these properties have not.  
37 That is why these properties are required to pay a charge  
38 now.

39  
40 The costs of the scheme, as proposed in the  
41 submission, will not necessarily be the costs that flow  
42 through directly to those customers or to other customers  
43 because we also have some access and grant funding for that  
44 scheme under the priority sewerage program, which is the  
45 driver.

46  
47 Many, many years ago, the EPA asked council to

1 identify critical areas for priority provision of sewerage,  
2 and this was one of many that we have been progressing  
3 through over the years. So that is the initial driver for  
4 the scheme. There is some funding available through that  
5 program and also through the country towns water and sewer  
6 supply program. We will be accessing some funding to  
7 reduce the cost and to bring it more in line with those  
8 values on which we consulted with the community. I hope  
9 that addresses some of those issues.

10  
11 MR CONROY: What about the risk to the council, because  
12 your letter said there would be no compulsion on those  
13 ratepayers to connect to the system?

14  
15 MS KNIGHT: Each individual property will be assessed on  
16 its capacity to maintain appropriate levels of sewage  
17 treatment using its on-site sewerage management systems.  
18 Many of those are reaching the limit of their capacity and  
19 ability to continue to do that, and that is one of the  
20 drivers for moving them on to the sewerage scheme. If the  
21 particular property can maintain its own onsite sewerage  
22 treatment system to an adequate level, we will certainly  
23 not be directing people to do that immediately, but it is  
24 envisioned that they will eventually move on to the  
25 sewerage scheme because that provides benefits in the long  
26 term.

27  
28 In terms of the stormwater drainage, which was another  
29 issue identified, one of the reasons for the original  
30 projects for stormwater that were listed being changed to  
31 other projects is because we try to maximise our access to  
32 grant funding as much as we can.

33  
34 Gosford actually gets the most grant funding from the  
35 state and federal governments. Out of all New South Wales  
36 councils, we are very successful in leveraging the grant  
37 funding that we can get through those bodies. Quite a lot  
38 of our projects are actually grant funded one-third  
39 council, one-third state and one-third federal so that  
40 two-thirds of external funding certainly helps us get  
41 through the backlog of capital works that we have for  
42 stormwater drainage.

43  
44 For those projects that were deferred, we ended up  
45 doing other projects that were more suitable for grant  
46 funding at that time which allowed us to get better value  
47 for ratepayer dollar. Some of other projects that were

1 deferred were deferred because they were associated with  
2 RTA work - now RMS works - that they were changing and  
3 there was no point us putting new drainage in if a road was  
4 about to be ripped up and rebuilt shortly after. There are  
5 often really reasonable reasons for the changes that were  
6 made, including aligning with other construction works and  
7 access to grant funding.

8  
9 THE CHAIRMAN: Thank you very much, Elizabeth. My  
10 colleague Simon would like to ask one question, and then  
11 Lucy and Amanda.

12  
13 MR DRAPER: Maybe I will defer my question. It is more  
14 directed to Elizabeth, so we can wait for that.

15  
16 THE CHAIRMAN: Amanda or Lucy?

17  
18 MS GARNIER: Michael has covered all of our questions,  
19 thank you.

20  
21 THE CHAIRMAN: Well done, Michael.

22  
23 Are there any questions from the floor for Michael?

24 No? Thank you very much, Michael.

25  
26 MR CONROY: Thank you.

27  
28 MR DRAPER: Elizabeth, this question is related to  
29 Michael's comments and it also relates to your presentation  
30 this morning. It seems to me there is quite a lot of  
31 variance in the capital program, and you just addressed  
32 some of the variances. I am interested to know what are  
33 the governance procedures you have in place. At the  
34 beginning of the determination, there is an assessment of  
35 what capital is required and that obviously fits into a  
36 long-term plan. When you get large variations over the  
37 course of a determination period, then within years, within  
38 projects, what processes do you use to reconcile those and  
39 do you have additional gateways for allowing projects to  
40 expand in scope to be introduced into the program?

41  
42 MS KNIGHT: We are currently in the process of improving  
43 our capital governance processes which look at  
44 incorporating gateways, having a formalised capital  
45 governance committee. We have been doing some of those  
46 things, but it has been in a less formal sense than we are  
47 currently starting to do, and are proposing to do, for this

1 pricing period for which we have put in our submission.

2  
3 The capital program that we have proposed this time  
4 has been assessed on risk and formal processes that were  
5 documented before we did them - "This is the process we are  
6 going to go through. Now let's go and do it" - and that  
7 was over-sighted and run through the capital governance  
8 committee. Then, as we go through the determination  
9 period, we are working on having those controls continuing  
10 to match back to what we proposed in the first place and  
11 having those go through the formal committee for  
12 variations.

13  
14 That process has been happening. It just has not been  
15 given a specific name, as such, in the past. So we see  
16 that there is a need to enhance those controls, but we have  
17 those conversations between the people watching the  
18 expenditure and the people spending the money and we say,  
19 "Is this just a spike or is it actually an intermittent  
20 blip or is it indicating a bigger spend for the whole  
21 project? How do we manage those?" We have those  
22 discussions with the management team and the people  
23 delivering the project and adjust to those when we need to  
24 do so.

25  
26 THE CHAIRMAN: Thank you, Elizabeth.

27  
28 Are there any general questions or comments from the  
29 people in the audience who would like to make a comment or  
30 ask a question of any of the submitters or IPART?

31  
32 GENERAL QUESTIONS AND COMMENTS FROM THE  
33 FLOOR

34 MS ORCHARD: My name is Helen Orchard. I am a resident of  
35 Koolewong. I would like to know whether both Gosford and  
36 Wyong Shire are behind in their fixed charges in comparison  
37 with other shires of the state?

38  
39 THE CHAIRMAN: Thank you, Helen. Amanda?

40  
41 MS CHADWICK: I cannot give you the detailed information  
42 right here, but I can tell you where it is all collated so  
43 you can make that comparison, and I will talk to you  
44 immediately afterward as to where you can find it. But  
45 I do think the proportion of fixed to variable charge is in  
46 line with all but Hunter.

47

1 MA Orchard: Then if you were to go Australia-wide, are we  
2 trying to get Gosford and Wyong councils to do things that,  
3 unless we get our fixed charges proportionate, are just a  
4 bit in the too-hard basket?

5  
6 MS CHADWICK: When I made the reference to Hunter, it is  
7 that their water service charge is low compared with  
8 Gosford's and Wyong's. I think the question you are asking  
9 is about the management discipline that the IPART process  
10 brings.

11  
12 We certainly think that independent pricing regulation  
13 offers an opportunity for transparency. So if a utility  
14 talks about its proposal, the community and IPART get to  
15 ask questions. The organisation is benchmarked against  
16 other utilities and the services that they provide.  
17 Drivers that are explained and, as the regulator requires  
18 this, we can unpack and ask the regulator what is actually  
19 required and is that consistent with your expectation?  
20 That is the benefit that we hope this process brings.

21  
22 THE CHAIRMAN: Thank you, Helen. Are there any other  
23 questions or comments? We will have a question from Rick  
24 and then Michael

25  
26 MR BANYARD: The pricing determinations occur for this  
27 area here - Gosford and Wyong - for the Central Coast, for  
28 the Hunter and for Sydney. I think, maybe Broken Hill has  
29 some sort of arrangement too, but the rest of the state  
30 does not have a price determination at all and the local  
31 governments are generally responsible for the water,  
32 sewerage and drainage in their areas. They just tend to  
33 pick a figure that they like based on one of the other  
34 determinations that has happened elsewhere. Is that a  
35 satisfactory process and should it really be that IPART  
36 sets a set of standard prices for the whole state?

37  
38 Then the other part of the question is - and  
39 I mentioned this when I gave my presentation - that there  
40 are certainly a number of other organisations eyeing off  
41 water to get into the act to be suppliers to that area.  
42 You never know, Woolies might come in and start looking  
43 after water. They have taken over the petrol. How will  
44 these price determinations relate to those things?

45  
46 THE CHAIRMAN: Thank you, Rick. Amanda?  
47

1 MS CHADWICK: You are right to identify that there are a  
2 number of different frameworks in New South Wales. The  
3 local water utilities, apart from Gosford and Wyong, are  
4 subject to what is called the best practice pricing  
5 guidelines which are regulated and overseen by Minister  
6 Hodgkinson and also the NSW Office of Water. That is the  
7 system against which councils' charges are assessed and  
8 evaluated.

9  
10 With regard to the other aspects you raised about  
11 competition, the Water Industry Competition Act, which  
12 IPART has a role in administering, covers the whole of New  
13 South Wales.

14  
15 MR BANYARD: So does IPART oversee any of the prices  
16 that are charged by other councils - and some of them are big,  
17 like Wollongong or Shellharbour?

18  
19 MS CHADWICK: The services of water in Wollongong are  
20 provided by Sydney Water, so we oversee those. In terms of  
21 Shellharbour, it is subject to the Office of Water and the  
22 best practice pricing guidelines. We would not wish to  
23 duplicate that while there is an effective framework in  
24 place under the best practice guidelines.

25  
26 THE CHAIRMAN: But we do now for State Water.

27  
28 MS CHADWICK: We do. We also set the prices for a variety  
29 of services provided in rural areas. So the infrastructure  
30 charges of State Water, and also the water planning and  
31 management charges of the Office of Water for the whole of  
32 the state, are administered by IPART as well as our other  
33 functions in other industries.

34  
35 THE CHAIRMAN: But the point is we do not regulate the  
36 water in, say, Shellharbour. That is done by the Minister  
37 for Primary Industries and Water - Shellharbour is part of  
38 Sydney; I take that back. We don't do Wagga. Thank you.

39  
40 Michael, you wanted to ask a question.

41  
42 MR CONROY: I just thought of a comment I needed to make  
43 in relation to a question that Jim Cox asked of the Total  
44 Environment Centre. This was the issue about should we try  
45 and increase the variable charges or implement variable  
46 price for sewerage use.

47

1 When I was preparing my submission, I had a quick look  
2 at the report that IPART did on what I think you called the  
3 metropolitan water authorities report. I think that looked  
4 at Sydney Water, Hunter Water and Gosford and Wyong and  
5 their various systems for charging.

6  
7 My quick scan of that report give me the impression  
8 that Sydney Water argued against having a variable charger  
9 for sewerage because it said that the capacity of the  
10 system was determined by things other than the domestic use  
11 of the sewerage system, that in fact it was caused by the  
12 peak flow in the system during times of heavy rainfall. My  
13 understanding of that problem in Sydney is that they have  
14 an old system - up to 100 years old in some areas - and  
15 people have made illegal connections of their stormwater  
16 drains to the sewerage system.

17  
18 I guess a question to be asked of the Gosford and  
19 Wyong councils is: is that a issue on the Central Coast  
20 given that the systems here are only 30 or 40 years old, in  
21 general, at the most, and therefore there should be less of  
22 these illegal connections to the sewerage system?

23  
24 MR COX: I suppose in terms of my thoughts, I think you  
25 are right to say that Sydney Water has never been in favour  
26 of a usage charge for residential customers. There is one  
27 for non-residential customers. I think their argument has  
28 been, as it has with most of the utilities, that most costs  
29 are fixed and do not vary greatly with the amount that they  
30 sell. So if you have a fixed cost, so to speak, that is  
31 being recovered by a variable charge, that fluctuates  
32 through time then obviously there will be a disconnect  
33 between revenue and costs. I think that is why utilities  
34 do not like it.

35  
36 I think Leigh Martin suggested that perhaps we could  
37 revisit the pricing more frequently, so if the revenue is  
38 down, the pricing will go up. Obviously that just  
39 transfers risk to customers. There is probably no easy  
40 answer here, so it is a question of balance.

41  
42 CLOSING REMARKS

43  
44 THE CHAIRMAN: Thank you all very much. It is right on  
45 one o'clock and the next session is the review of developer  
46 charges, which starts at 1.45.

47

1 This has been a most interesting session, very  
2 informative and very good discussion and we really  
3 appreciate that. We will take on board the points that  
4 have been raised in the submissions and also the points  
5 that have been raised today.

6  
7 We will issue our draft report on 20 February 2013.  
8 There will be four weeks for public submissions on the  
9 draft report, so you will all get another opportunity.

10  
11 Thank you very much. We will have lunch now and then  
12 we will resume for the next hearing at 1.45

13  
14 AT 1.05PM THE TRIBUNAL ADJOURNED ACCORDINGLY

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

41

42

43

44

45

46

47