

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

METROPOLITAN WATER PRICE REVIEW
GOSFORD AND WYONG COUNCILS

Tribunal Members

Dr Michael Keating AC - Chairman
Mr James Cox
Ms Cristina Cifuentes

Held at the Quality Inn, "The Willows"
512 Pacific Highway, Gosford North, NSW, 2250

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10/2/06 1
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INDEX

Page No. Organisation and Representatives

6JOINT WATER SUPPLY PRESENTATION:
WYONG SHIRE COUNCIL
(David Cathers and Rod Williams)

21WYONG SHIRE COUNCIL
(Ken Grantham)

33GOSFORD CITY COUNCIL
(Rod Williams and Steve Diffey)

46NCOSS
(Dev Mukherjee)

53TOTAL ENVIRONMENT CENTRE
(Leigh Martin)

59PUBLIC INTEREST ADVOCACY CENTRE
(Elissa Freeman)

.10/2/06 2
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1 THE CHAIRMAN: Ladies and gentlemen, I would like to begin
2 by welcoming you to this public hearing which has been
3 conducted by the Independent Pricing and Regulatory
4 Tribunal into water, sewerage and stormwater prices across
5 Gosford City Council and Wyong Shire Council for the period
6 from 1 July this year to 30 June 2009.

7
8 The first thing to do is to introduce ourselves here.

9 I am Michael Keating and I am the chairman of the Tribunal.
10 On my right is Jim Cox, who is also the chief executive
11 officer of the Tribunal and a full-time member of it, and
12 Ms Christina Cifuentes, who is a part-time member of the
13 Tribunal.

14
15 Many of you probably recall that in May last year the
16 Tribunal set prices for the councils for the current
17 2005-2006 financial year. That price determination, as you
18 are probably aware - or most of you would be aware - was
19 limited to one year basically in recognition that the
20 councils had to make some key decisions about which
21 projects should be undertaken to secure future water
22 supplies to the Central Coast region and at that stage we
23 were really too uncertain as to what the councils' future
24 capital expenditure would be and we felt we could only make
25 a price determination for one year.

26
27 The extra time that has, in effect, been granted has
28 been used by the councils and in this review we do envisage
29 setting prices for the period from 1 July 2006 to 30 June
30 2009, that is, for three years, which will bring these two
31 councils then in line with Sydney Water and Hunter Water.
32 Come 2009, there will be another review of all four water
33 authorities at the same time.

34
35 As part of this investigation the Tribunal released in
36 August 2005 an issues paper which set out key aspects of
37 this review process. That issues paper also outlined some
38 of the matters the Tribunal considered important to this
39 review, its general approach to price setting and the
40 various matters that our Act says we must take into account
41 in conducting our investigation and we had a draft
42 timetable for the review.

43
44 In the issues paper the Tribunal called for
45 submissions from both Gosford and Wyong Councils, but we
46 also invited councils' customers and other stakeholders to
47 make submissions. I would like to place on record our

1 appreciation to all of those of you who have taken the time
2 to make a submission. Some of the organisations that have
3 made submissions to the review will be presenting a case to
4 this hearing today and I want to assure you that all of the
5 submissions that have been received will be carefully
6 considered by the Tribunal in developing its final
7 recommendations.

8
9 The Tribunal considers this to be a very important
10 investigation. As is now known to all of you, I am sure,
11 the Central Coast faces a significant and potentially
12 growing imbalance between the supply of and the demand for
13 potable water. This is a short-term imbalance caused by
14 the drought but it is also a longer-term imbalance. There
15 are a number of factors causing this imbalance and clearly
16 the growth of and the number of people moving into the area
17 drawing on water supplies is a factor, as is, of course,
18 the drought itself.

19
20 Bringing water supply and demand into balance will
21 inevitably require significant expenditure. I think we
22 need to recognise that new additional sources of water will
23 very probably be more expensive. That increased
24 expenditure which will be necessary will have to flow
25 through to the prices that customers pay. It is part of
26 the Tribunal's role to scrutinise these and any other
27 expenditure proposals to assess whether the costs are
28 efficient and justified and whether they should be passed
29 through to consumers and how quickly they should be passed
30 through to consumers. This hearing will be considering
31 those sorts of issues, amongst others.

32
33 In the context of the demand/supply imbalance, the
34 level and structure of water prices may be important in
35 encouraging consumers to limit demand. I want to say that
36 the Tribunal would be interested in hearing views on this
37 aspect, to what extent prices can impact on demand. This
38 hearing is a very important part of the overall review
39 process. Principally, it provides an opportunity for the
40 Tribunal to hear in a public forum, firstly, from the water
41 businesses but also from other key stakeholders and for us
42 to question the propositions that have been put forward,
43 consistent with our aim of achieving efficient and
44 justified expenditures. The submissions made by the
45 councils together with other submissions and consultants'
46 reports are available to the public through the Tribunal's
47 website.

1 Before commencing proceedings today I think I should
2 say just a few words about the process of this hearing.
3 I hope you will have available to you a timetable which
4 indicates the order in which organisations will be
5 presenting before the Tribunal. For each organisation
6 appearing a presentation time has been allowed and that is
7 to be followed by a time period for questions. I would
8 like to ask all the presenters to stick to your allotted
9 time, but just to help you I will probably give you a
10 warning by banging on this water jug which will indicate
11 you have a few minutes left - say, about three.
12
13 Assisting the Tribunal today are the Tribunal's
14 secretariat members. Colin Reid is the director of water.
15 Richard Warner is the program manager for metropolitan
16 water pricing. They will mainly be asking questions of
17 presenters. We, the Tribunal members, may chip in
18 occasionally ourselves. At the conclusion of all of the
19 scheduled presentations I want to make some time available
20 for members of the public to express their views and
21 opinions on the proposals that have been put forward before
22 us by the councils and also the other stakeholders to
23 express a view or opinion. It may be that some of those
24 views the councils may want to respond to. We will see how
25 we go on that.
26
27 We commence today with the representatives from the
28 joint water supply authority made up of representatives of
29 both Gosford City Council and Wyong Shire Council. I
30 would
31 like to begin by asking you to state your names,
32 organisations and positions for the record, which is being
33 transcribed, and then it is over to you to make your
34 presentation. Thank you.
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1 WYONG SHIRE COUNCIL
2
3 MR WILLIAMS: My name is Rod Williams. I am the director
4 of water and sewerage at Gosford City Council.
5
6 MR CATHERS: My name is David Cathers and I am director
7 of shire services at Wyong Council. Mr Chairman, I might
8 start the presentation. We are going to operate from out
9 the front where the computer is.
10
11 THE CHAIRMAN: Yes.
12
13 MR CATHERS: Today there are two parts to the total
14 presentation by the two councils. The first bit is between
15 Rod and myself as dealing with part one, which is
16 essentially dealing with all the headworks components, and
17 then we will be switching over to Wyong Council and then
18 Gosford City in terms of the order of our presentations.
19
20 Some of this, Mr Chairman, is a little bit of
21 recapping. In fact, some members of the secretariat would
22 have heard some of this before because we are unfortunately
23 very much faced with a continuing situation in regards to
24 the position of the drought. Nothing has really changed in
25 terms of the drought other than it is getting worse in
26 terms of our total storage.
27
28 It is all rather relevant when you actually look at
29 the population on the Central Coast. Very, very
30 significant population growth is certainly projected.
31 Indeed, as to the current populations on the Central Coasts
32 we are talking about a region of very, very large
33 population and therefore it is imperative that we deal with
34 all of the contingency works that we've been talking about
35 and all of our future planning bearing that in mind.
36
37 Again, just for quick reference, Wyong Shire is here
38 in the green and Gosford City is in the yellow. Basically,
39 it is a scheme that is developed around a large dam at
40 Mangrove and indeed consists of a number of linkages
41 through the system between the two local government areas.
42 We have what we call an inland connection and there is also
43 a coastal connection with the systems. At the moment we
44 also have a connection with the Hunter Water Corporation up
45 here at Mainwaring Park and currently we are buying
46 six megalitres of water per day from the Hunter. One of
47 our contingency plans, which I'll go to a little bit later,

1 actually talks about increasing the capacity.
2
3 It is relevant to again look at the Central Coast
4 stream flows in terms of the historical setting. What you
5 see here is a presentation that plots the annualised stream
6 flows from all the streams from which we harvest water back
7 around about the mid-1880s. Some of this back here is
8 obviously synthetically derived. When you average those
9 stream flows from that period of time all the way through,
10 you end up with the black line and what is of particular
11 significance is the last few years, particularly in
12 relation to there around about 1990 onwards. When you look
13 at the annualised stream flows from that point in time, you
14 end up with that turquoise line there and obviously there
15 is a very, very significant reduction between the long-term
16 average, the black line, and the blue line.
17
18 What hasn't really changed, other than via
19 restrictions, is in fact this yellow line which corresponds
20 to the annual demand and so from a relativity point of view
21 instead of relating that yellow line to the black line,
22 we are relating that yellow line to the turquoise line. In
23 terms of our ability to get water into the system to deal
24 with the demands on the situation, it is a lot more
25 limited.
26
27 In relation to current storages that is the most
28 recent plot of the storage situation. Mangrove Creek Dam
29 itself is a touch under 20 per cent. Total storage is just
30 around about 21 per cent. As you can see, since 1990 we
31 have essentially had a continuing drop in terms of total
32 storage and that is predominantly driven by the rainfall.
33 The fact is that from 1990 all the way through the annual
34 average rainfall, which is represented by that yellow line
35 there, is predominantly below that dark blue line which is
36 the long-term average rainfall. Prior to 1990 when
37 Mangrove Creek Dam was built - back here - the yellow line
38 exceeds the long-term average and we in fact had a storage
39 situation where Mangrove was filling. Since that time, as
40 I say, it has been less than and consequently Mangrove has
41 been falling.
42
43 It is very important to recognise that the systems on
44 the Central Coast are very, very dependent on stream flows.
45 We harvest from streams. We don't have storages that are
46 effectively on-stream storages. We've got off-stream
47 storages. To that extent our systems are extremely reliant

1 on rainfall events.
2
3 Some of the key water issues for us are drought
4 management - a short-term strategy - and I have to say that
5 the two councils have committed extensive resources to
6 dealing with the current drought management issue. It is
7 relevant again, when you're talking about that population
8 of just a touch over 300,000 people on the coast, to
9 recognise that when we're dealing with a falling storage
10 situation it's important to put that population size into
11 context to say what would happen if we were in a situation
12 where the storages were in fact depleted. It is an
13 impossible situation for us to even contemplate and at the
14 political level we have continually assured both councils
15 that we will have contingency plans in place to ensure that
16 the storages will not basically run dry.
17
18 The very first issue that is very important for us is
19 drought management. The second issue is to recover from
20 the drought. I was interested in your comments,
21 Mr Chairman, in terms of the current situation. Some of
22 our predictions are that recovery from the drought could in
23 fact be a period of between five, seven and even up to nine
24 years, depending upon obviously rainfall events. Even if
25 we get average rainfall from here on in, it is going to
26 take us a significant time to recover from the drought.
27 Indeed, the third issue that is important to us is
28 long-term scheme development.
29
30 As to drought management in the short term, the
31 strategy is dealing with demand reduction. We have brought
32 in contingency or supplementary supplies. The key issue in
33 regard to these drought management strategies is that they
34 provide adequate supplies on time. There is absolutely no
35 point in those supplies coming in in a situation that might
36 be four or five years away. We are dealing with a
37 situation where we need to ensure that any additional
38 supplies are on line within a relatively short period of
39 time.
40
41 The types of time frames that we have targeted are
42 within a two-year time frame. Secondly, the key issue is
43 cost. There is no point in introducing drought management
44 contingency strategies that are cost prohibitive and so we
45 are very mindful of that. It is also important that we
46 ensure that the contingency supplies are compatible with
47 our long-term strategy. Again, we don't want to arrive at

1 the situation where we've got a conflict with what our
2 long-term strategies might be; and lastly, it is to ensure
3 that environmental factors are dealt with. That has been
4 particularly on our minds in relation to groundwater
5 development in regards to contingencies.
6
7 With respect to demand reduction, I don't intend going
8 through the whole of the detail on these, Mr Chairman,
9 other than saying that we have been approaching this in
10 terms of the demand reduction process more or less along
11 the lines of a toolbox approach. We have all sorts of
12 tools in the toolbox and we're not just reliant on one
13 particular strategy. We are approaching this with multiple
14 strategies.
15
16 In terms of the average residential demands before
17 restrictions, we were around 206 kilolitres per tenement
18 per annum. The current restrictions, in terms of average
19 residential demands during restrictions, we are around
20 about the 179-180 kilolitres per tenement per annum. That
21 obviously has an effect in terms of our total demands and
22 they're represented in that table. It is also relevant to
23 look at a little bit of history and find out how we have
24 been travelling over the years. Since July 2001 what we've
25 plotted here is a representation. If you look at the black
26 line, which is the top line, that represents our
27 theoretical demand prediction if we were in an unrestricted
28 environment: in other words, if things were normal. The
29 blue line is our 8 per cent reduction, which is that one
30 there, which represents a first-level restriction. The
31 green line is a 16 per cent reduction, which is a
32 second-level restriction, and the purple line is
33 24 per cent, which is a third-level restriction level.
34
35 In terms of behaviour of the Central Coast in regards
36 to the consumers and how we've been travelling, it is fair
37 to say that the level of compliance and of achieving of
38 these reduction scenarios that we're after, bearing in mind
39 that currently we're under a level two restriction regime
40 which is targeting that sort of figure, we have been
41 achieving around about a 21 to 22 per cent reduction and
42 that is reflected certainly over here. You can see that
43 the reductions that we are achieving are certainly within
44 that green line. To some extent that has been very much in
45 the back of the minds of the two councils in regards to the
46 need to introduce level three restrictions.
47

1 It is fair enough to say that because the reductions
2 have been quite significant in terms of that number there -
3 as I say, we're around about 21 to 22 per cent - that the
4 two councils have said, "Okay, there is really not a lot
5 more to be gained by introducing level three restrictions
6 at this point in time."
7
8 It is also relevant to note that when you actually
9 analyse these curves in detail one of the things that we've
10 been very cognisant about is that the performance of the
11 communities in terms of demand is very, very closely
12 related to weather patterns, irrespective of the type of
13 restriction that you have on, and that is exemplified by
14 those peaky demands there which occurred over the
15 Christmas-New Year period that we have just gone through
16 where we had several weeks of extremely hot weather and
17 very, very low rainfall and we obviously exceeded our
18 demands in that area there and in fact, frankly, that was
19 something of fairly major concern for the two councils.
20 Fortunately, given the modification of the climate or of
21 the weather patterns in the last few weeks, we're now back
22 on target.
23
24 MR WILLIAMS: Could I also mention the bushfires. We had
25 a number of houses burn down and we used a lot of water
26 fighting those fires and that is reflected in that.
27
28 MR CATHERS: With respect to consumption forecasts, which
29 are reflected in each of the submissions, each council
30 presented a single consumption forecast in 2005 and it was
31 based on those sorts of criteria. As to the contingency
32 supplies, we have essentially three major contingency
33 supplies that we've been exploring. We have a number of
34 other ones that we are looking at, particularly in relation
35 to groundwater. Because of the reduction in estimated
36 yield that we had thought we may get from the first
37 groundwater bores that we established, we were originally
38 looking at an estimated yield of something up around the
39 18 to 20 megalitres per day. That has been significantly
40 reduced now because we have actually brought them on line.
41
42 Most of the bores that we've established are what are
43 called hard-rock bores, they're not bores established in
44 sand aquifers, and it is consequently very difficult to do
45 any sort of accurate predictive work. Because of the
46 reduction in that yield we are now faced with a situation
47 whereby the connection to the Hunter Water Corporation is

1 becoming even more important than it was previously. In
2 the first instance, we believe we'll be getting about
3 27 megalitres per day from the Hunter and that will be
4 available by the end of this year. That will basically
5 reduce to 20 megalitres per day over around about a six to
6 seven year period as the Hunter's demands increase.
7

8 The third contingency that we have developed is
9 desalination. We are talking about a possible
10 20 megalitres per day. At this point in time we have
11 applied to the State Government for development consent.
12 We are waiting for that consent to be considered. We
13 anticipate getting a response from the State in regard to
14 that consent application in around about the next two to
15 three weeks. There is no doubt that if it is approved it
16 will have a series of conditions attached to it that will
17 be very, very extensive.
18

19 With respect to the implementation of contingency
20 supply, it is very important that we consider time to
21 commission, ability to progress the works, compatibility
22 issues, capacity to reliably supply the water and the cost.
23 Why are we targeting the 30 megalitres per day? This is a
24 curve that we have been producing now for over two years
25 and we have been modifying it as we develop the
26 contingencies. What it is is basically our input curve
27 into the system. What do we need in terms of additional
28 supplies and when will they come on line? Effectively, on
29 the left-hand side, we've got the megalitres per day that
30 we need and the lower scale is the date.
31

32 What is happening is that we are travelling along this
33 orange line here and we're in that vicinity as we speak.
34 We are talking about that area there. In order to ensure
35 that the storages stop declining we need around about
36 30 megalitres per day based on analysis of our climate and
37 weather patterns over around about the last three years.
38 Our target figure, the magic figure we keep talking about,
39 is 30 megalitres per day. Obviously, that has a banding on
40 it because things could get worse and we might need more or
41 things could get slightly better and we might need slightly
42 less. That aside, that is our target figure.
43

44 As you can see, this big jump here occurs when we get
45 the extra 21 megalitres from the Hunter which is
46 programmed, as I say, from the end of this year. We are
47 currently getting six and that will take it up to 27.

1 Beyond that, there's a further development of the
2 groundwater there and that's our latest prediction in terms
3 of the groundwater at Woy Woy and as can you see that curve
4 is slightly declining because it is running down from that
5 27 megalitres per day. If we need more in terms of that
6 target figure then that's the desalination prediction.
7

8 The secretariat are probably sick of seeing these
9 curves but these are very important to us. We have been
10 producing these now for over two years. These are what we
11 call our declining curves: some people even call them death
12 curves. They are the curves that basically represent the
13 situation as far as our current storage is concerned and
14 where we might be travelling into the future.
15

16 Without going into the details, the reason why they're
17 shown is to effectively represent a declining situation in
18 summer: so in summer the storage is in decline and there's
19 effectively a bit of an autumn-winter recovery. The
20 pattern of behaviour has in fact been following that line
21 there. We are currently at that point in our predictions.
22 What is very, very critical to us is that we ensure that
23 this black line here, which is what our prediction would be
24 without any contingency plans, is in fact pulled up and we
25 shift that up to represent these curves through here. Our
26 suite of options that we've been talking about effectively
27 does that.
28

29 The other critical aspect about this particular curve
30 which we are keeping a very, very close eye on at the
31 moment is because we are at that point here. You can see
32 our predictions are that we will get an autumn recovery to
33 get us up to around about that position there. It is very,
34 very critical that we get that autumn recovery in the next
35 few months. If we don't get that autumn recovery and if
36 one was to take a bit of a pessimistic view on things,
37 you could basically project that line downwards in terms of
38 a constant slope. That is a situation that we don't want
39 to find ourselves in. In the next few months, in fact, we
40 will be telling you, probably in July about when the
41 determination is made, as to whether we've achieved that
42 autumn recovery or not.
43

44 With respect to the medium-term strategy, we have a
45 number of other things in the pipeline, so to speak. These
46 are our medium-term works. We have the Mardi Dam raising,
47 some transfer upgrades and the Mardi high lift pump station

1 and associated works. As can you see from those
2 commissioning dates they do not really help us
3 significantly in the next two years. These are our medium
4 -term works that we need anyway as far as enhancement
5 of the scheme, but they do help us a little bit in terms of
6 the longer-term drought recovery process.
7
8 With respect to long-term scheme development, this is
9 what we've been calling our Water Plan 2050. It has been a
10 strategy that has been developed over around about the last
11 two years and it consists of basically a suite of options
12 that we've been examining to take us out to deal with the
13 population on the Central Coast for the next 40 years or
14 so. Consistent with this suite of options is demand
15 management, effluent reuse, stormwater harvesting,
16 augmentation of surface water sources, groundwater and
17 desalination. The impact of the water sharing plan is an
18 issue that is very close to our hearts at the moment and
19 without going into detail, we have what we see as a looming
20 problem. Quite aside from the drought, we see a looming
21 problem in regard to the future of the water sharing plans.
22
23 If you have a look at this curve, this is very much a
24 simplified graph of the current situation and our
25 projections into the future. The current situation is that
26 we have a current demand at that blue line over that period
27 of time. The green line, in fact, represents our yield in
28 the system and as you can see it is declining and it is
29 obviously declining closely aligned to the situation of the
30 storage decline. Even at the moment we have a shortfall in
31 terms of the current drought.
32
33 If, however, we were to just park the drought and put
34 that aside and look at the long-term future in regards to
35 the State's plans for water sharing, our current analysis
36 of those plans indicates a yield of that black line and
37 that's from the water sharing plan rules. The councils
38 have put back and are strongly resisting the current plan
39 as it is being developed. We have put back an alternative
40 set of operating rules or set of sharing rules that in fact
41 is represented by that mauve line there. I don't intend
42 going into any more detail, Mr Chairman, other than to say
43 that the whole situation, as you can see, is very, very
44 crucial in regards to where we might be heading in terms of
45 the long-term future because the shortfall is represented
46 out here, and so if we adopt the current water sharing
47 rules that are being formulated, we could end up with a

1 situation where there's a significant shortfall on
2 capacity. When the State talks about this area being a
3 growth area, we can't accommodate that growth situation
4 under that scenario.
5
6 Flexibility requirements in terms of the long term are
7 very important. It is also dependent upon the level of
8 environmental flows, demand growth and climate change. We
9 have taken into account climate change in terms of our
10 long-term modelling. Thank you, Mr Chairman. I basically
11 want to leave that there in terms of the headworks and I
12 would be intending to go into the next section in terms of
13 Wyong's presentation and then Gosford's.
14
15 THE CHAIRMAN: Yes.
16
17 MR WARNER: We have a few questions to ask you. Firstly,
18 in addition to increasing expenditure on the Hunter Water
19 connection and groundwater sources, there are other
20 significant proposals on the Mardi Dam, et cetera. That
21 involves a fairly significant expenditure profile over a
22 significant period of time. While all those projects may
23 be compelling, what level of comfort and assurance can you
24 give the Tribunal that those things will actually be built
25 and delivered on time?
26
27 MR CATHERS: Probably the greatest level of comfort is if
28 I go back to that death curve. Basically, it is driven by
29 the imperative of having to deliver those contingency
30 plans, or those plans, by those dates. I can give the
31 Tribunal all sorts of assurances to say we've got plans in
32 place with project management, et cetera, to deal with
33 that. The Tribunal might say, "Well, you haven't acceded
34 to some of your previous undertakings in that regard," but
35 let me say to you that I believe that there's a higher
36 imperative in terms of both death curves in that we cannot
37 allow a situation of a declining storage to continue
38 without having those supplementary supplies. Both
39 organisations are very, very focused in regards to that.
40
41 MR WARNER: Where are you up to with the Hunter
42 connection then?
43
44 MR CATHERS: We are at the point where we have awarded
45 pipe supply contracts. Those contracts have actually been
46 awarded, as have valve supply contracts. We are around
47 about halfway through achieving all of the land acquisition

1 matters. As you can imagine, there is quite an extensive
2 set of easements that we have to acquire and we're about
3 halfway through that process. We have applied to DEUS and
4 we are waiting for the Minister to give us the authority
5 for compulsory acquisition of these easements. We had
6 expected that only yesterday, as a matter of fact, in terms
7 of the land acquisition process. In eight weeks time we
8 will be awarding the construction contracts for the
9 pipelines and the prediction is that we will have that all
10 in place by the end of this year.

11
12 MR WARNER: Hunter is also --

13
14 MR WILLIAMS: Can I just add something to the project
15 delivery? We have set up special groups. One of the
16 problems with both councils is that we haven't historically
17 resourced for this level of expenditure. We have set up a
18 special project group within the organisation and have
19 hired a special project manager, the Department of
20 Commerce, to deliver the project against the time frames
21 that we've indicated here. You are probably aware that
22 both of us get called certainly on a daily basis by our
23 council as to, "Are we going to run out of water?" The
24 answer that David and I are giving them is that we're not.
25 We're really focused on this issue.

26
27 MR WARNER: Just on the Hunter connection, I understand
28 Hunter, in fact, has to do some lead-in works. How are
29 they proceeding on their works?

30
31 MR CATHERS: Very well. We have joint project meetings
32 with the Hunter. In fact, I had a meeting with the Hunter
33 that finished at eight o'clock last night, which is our
34 monthly project team meeting, and the Hunter is
35 parallelling those time frames that I spoke about.
36 In fact, when Wyong awards the contracts for the
37 construction in that seven-week period that I was talking
38 about, that is the time frame when the Hunter will be
39 awarding their contract for the construction in their area.
40 My comments are applicable to both organisations.

41
42 MR WARNER: Going on to the issue of desalination, I think
43 you mentioned that your consent application would be dealt
44 with, hopefully, in two to three weeks. What is the
45 process from there? Where do you expect to go?

46
47 MR CATHERS: There are a number of matters. That consent,

1 in whatever form, will be taken back to the two councils
2 for consideration. We will then be considering the needs
3 issues in relation to proceeding or otherwise with the
4 desalination because the two councils have only made the
5 decision to take it to this point. There has been no
6 decision whatsoever to proceed with construction at this
7 point in time.

8
9 The other matter that will need to be considered is
10 the ramifications of those consent conditions. We would be
11 expecting some of those conditions to require ongoing
12 monitoring of, for instance, around the Norah Head outfall,
13 which is the outfall where we would be proposing to put the
14 brine, so there would be reasonably extensive expenditure
15 involved in further monitoring of that. As I say, the
16 matter will be taken back to the two councils for
17 consideration in terms of how they then respond, bearing in
18 mind the target figure of 30 megalitres per day that we
19 need.

20
21 MR WARNER: I notice, though, in your submissions you
22 haven't made very large provision at all for desalination.
23 I am just trying to get a sense as to whether or not you're
24 going to be coming back to us before 2009 saying, "We need
25 to proceed with desal."

26
27 MR CATHERS: That is more than a million-dollar question.
28 We could be, in fact, coming back to the Tribunal to say,
29 "That input curve that we needed, we need more than
30 30 megalitres per day. The drought has been getting
31 worse," et cetera. We may need to bring it on and we could
32 be in a situation where we'd have to come back to the
33 Tribunal.

34
35 MR WILLIAMS: I think the Tribunal has led us to take a
36 very conservative approach here. The discussions that
37 we've had with you in the past have indicated that if
38 something is speculative or a probability then we wouldn't
39 be allowing for it in our costing. If we did need that
40 money then we would be coming back to you. That is not to
41 overlook the fact that we've already spent in excess of \$2m
42 between the two councils, which I don't think the Tribunal
43 has acknowledged in the pricing to date.

44
45 THE CHAIRMAN: Could I interpose here? I am quite happy
46 to defend our, as you put it, conservative approach when it
47 comes to speculative expenditures. Is there any chance you

1 would be coming back between now and the determination,
2 which has got to be before July?

3
4 MR CATHERS: As I think the Chairman can appreciate, there
5 are quite a degree of political issues involved in this
6 matter. Let me say that probably the greatest effect on
7 the decision on whether to proceed with desalination, in my
8 view, over the next, say, five months or so would be as to
9 whether we get that autumn recovery. If we don't get that
10 significant autumn recovery that we're banking on then the
11 councils will be in the situation where they'll be having
12 to say, "How do we get that extra water into the scheme?"
13 There are a couple of other things that we are currently
14 exploring, but certainly the most immediate way of getting
15 an extra 20 megalitres per day into the system is through
16 desal.

17
18 MR WILLIAMS: Can I also add just by making a bit of a
19 distinction between climate change and accounting for the
20 drought? When David mentioned before that we were
21 accounting for climate change that was really about the
22 0.5 increase in temperatures and a certain percentage
23 reduction in rainfall. It wasn't looking at a continuation
24 of the drought or the drought becoming more severe than it
25 currently is. Clearly, from those graphs, if the drought
26 does become more severe we would have to get additional
27 water resources other than the 30 megalitres per day we're
28 currently targeting.

29
30 MR REID: While recognising that the demand for water per
31 customer is obviously much lower on the Central Coast than,
32 say, Sydney and that that has obviously been reduced even
33 further with water restrictions, I am just wondering,
34 pursuing the issue of your reliance upon demand management
35 measures and effluent reuse as part of the total package
36 for resolving the demand-supply imbalance, whilst you've
37 listed various demand-side activities there have you
38 assigned particular figures to or had particular reliance
39 on any of those specific measures and how do you prioritise
40 them relative to one another and relative to supply
41 augmentation?

42
43 MR CATHERS: There are multiple questions there.

44
45 MR REID: Yes.

46
47 MR CATHERS: Have we done that analysis? Yes, we have.

1 We have identified how much we believe we can get out of
2 each of the components in terms of the demand management
3 processes and there's quite a raft of documentation in
4 regard to that. In fact, that's one of the matters that
5 we're continually putting back to the joint meeting of the
6 two councils, ie, our board, to continually monitor on how
7 effective some of those have been. Some of them have been
8 more effective than others, but we have done that
9 disaggregation.

10
11 The crucial question is in regard to the current
12 demand of around about 180 kilolitres per tenement per
13 annum. How much further can we reduce? It is difficult to
14 say. Given the current performance of the demand reduction
15 scenarios that we're achieving they're better than we had
16 thought. To that extent to get to the next level of
17 reductions is going to be very, very difficult because the
18 next level of reductions that we would be talking about
19 would involve things like the banning of hoses totally and
20 maybe in level four sort of restrictions the only way to
21 achieve that is to ban any sort of outside use whatsoever.

22
23 Our approach has been we have done predictions and
24 then we've been seeing how we have been travelling with
25 those predictions. The greatest aberration to those
26 predictions has been the effect of weather and that tends
27 to be a bit of a wild card in regards to being able to
28 predict those accurately.

29
30 MR WILLIAMS: Can I just add to that by saying that timing
31 is a crucial issue. With the contingency plans we looked
32 at what can be brought on within two years? Some of those
33 things, like further demand reduction through rainwater
34 tanks and refitting homes or recycling water, have a longer
35 time frame and we're certainly working on those and if the
36 drought or the contingency requirements can be spread over
37 a longer time then obviously we can get more demand
38 reductions, but I just wanted to make that distinction
39 between the need to get additional supplies on within a
40 two-year framework versus something that might extend over
41 three to five years.

42
43 MR WARNER: We note that your capital expenditure
44 forecasts are now very much higher than some of the things
45 we were previously led to believe might be the case, or
46 previous costs. Are there reasons for this and how can the
47 Tribunal have some sort of confidence that you can deliver

1 the programs within those cost limits?
2
3 MR CATHERS: Could I focus on a couple of examples? The
4 Mardi transfer system, for instance, the original estimate
5 that I think we gave the Tribunal at the last determination
6 was something in the order of \$12m to \$13m for that
7 particular job. We then subsequently went to tender and,
8 frankly, I believed that the estimate was significantly
9 low. It didn't give regard to the current construction
10 costs, et cetera, and we are probably talking of something
11 between \$16m and \$18m for that particular project, which is
12 within the current price determination.
13
14 As to the confidence that you get from us, I think
15 there has been a bit of a learning from us in regards to
16 the future in regards to the accuracy of some of those
17 estimates. Even though they were prepared, by the way, by
18 consultants for us, they simply did not give regard to the
19 current construction costs that are out there and that's
20 affected not only in water and sewerage works, but it has
21 been affected certainly in a lot of roadworks and drainage
22 works that we have been undertaking. We have taken that on
23 board.
24
25 Secondly, it should also be pointed out that some of
26 those estimates were very, very preliminary. I have no
27 doubt, Richard, you get these sorts of reasons given to you
28 often, but they were very preliminary estimates. I can
29 only just say that that's what they were. For example,
30 with the Hunter scheme the preliminary estimate that we had
31 been talking about was in the order of \$18m. It is up to
32 around \$27m. We believe we've now got that pretty well
33 fixed.
34
35 By the way, at the last determination we were arguing
36 with the Tribunal's consultant who was saying that we
37 should be able to deliver that between \$12m and \$15m. It
38 is very dependent on the derivation of those estimates. We
39 believe that our \$18m or \$19m was in fact fairly valid
40 because that extra \$8m to take it up to the \$27m is in fact
41 the Hunter component of that scheme. There is an example
42 of an estimate that we thought we were pretty right on.
43 Your consultants didn't agree with us. They thought we
44 should be able to get it in for far lower. We believe
45 we're still pretty right on that one.
46
47 THE CHAIRMAN: Might I ask one question? David, you

1 outlined your concerns about the water sharing plan and
2 pointed to the gap if the present plan was adhered to. Are
3 the various investment capital expenditure proposals that
4 we have in front of us based on your preferred
5 water-sharing plan or are they based on the present
6 water-sharing plan?
7
8 MR CATHERS: That is a bit of a two-edged sword because
9 the water-sharing plans have a bit of a short-term impost,
10 not a huge short-term impost, but they have a huge
11 long-term impost and so the works that we are proposing in
12 the current price path are works based on our predictions.
13 We are hoping that we can convince the State Government to
14 accede to four requests in terms of the water-sharing plans
15 and so in that regard I don't believe that the
16 water-sharing plans will have a huge impact even if the
17 State doesn't agree with our requirements in terms of
18 current price determination.
19
20 THE CHAIRMAN: It is beyond the current price
21 determination.
22
23 MR CATHERS: Yes, but it will have an impact. I am sorry,
24 Mr Chairman, could I just add this: it could affect our
25 planning significantly.
26
27 THE CHAIRMAN: Yes.
28
29 MR COX: I have no questions.
30
31 THE CHAIRMAN: We might move now to Wyong Shire
32 Council.
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1 WYONG SHIRE COUNCIL

2
3 MR CATHERS: Mr Chairman, can I introduce Ken Grantham.
4 Ken is the manager of water and waste at Wyong Council and
5 Ken will be doing the presentation on behalf of Wyong.

6
7 MR GRANTHAM: Mr Chairman, ladies and gentlemen,
8 thank you. David has just spoken to you about the drought
9 and some of its costs. Obviously, that is going to have
10 significant impacts on operating and capital expenditure
11 for Wyong Council. I would like to cover the pricing
12 structure and how those costs need obviously to be
13 recovered through prices and how Wyong Council proposes
14 that those costs be recovered.

15
16 We have the ongoing issue of developer charges, which
17 I think the Tribunal has heard from us on before. There is
18 a new or a proposed interim pricing arrangement for
19 stormwater charges and a new trade waste pricing structure.
20 In terms of the drought and its impacts, over the next
21 three to four years there will be about a \$2.1m additional
22 expenditure. This is in the same order as what was
23 presented in the previous determination. This expenditure
24 in our opex relates to the purchase of water from the
25 Hunter Water Corporation, to operating effluent reuse
26 systems and schemes, to the operation and maintenance of
27 groundwater systems and the additional costs of operating a
28 system.

29
30 The Gosford-Wyong system is a very complex system. We
31 can operate that in a number of ways. When we've got
32 plenty of water we operate that to be the most efficient or
33 most efficiently in terms of costs. However, when we are
34 running short on water, as we have been for the last number
35 of years, we are operating in a way that maximises our
36 yield from the system. Generally that imposes additional
37 water costs because you aren't necessarily using your
38 cheapest sources of water. You are using your most ready
39 sources of water first and conserving where you can.

40
41 On the capital expenditure side, again, not much
42 different from what was in our previous submission. At
43 that time an allowance of \$25m was made for the anticipated
44 capital works. Over the last year those estimates have
45 been very much refined and the type of works to be
46 undertaken has been refined and we're talking about
47 expenditures of \$21m, or just over \$20m, which includes the

1 groundwater component of about \$12m, the Hunter of \$9m and
2 the salination allowance of about \$350,000 for the
3 preliminary works on desalination.

4
5 In terms of the pricing structure, the significant
6 increase or increases to fund those works, we're proposing
7 a water usage charge and that's an 18 per cent per annum
8 increase above CPI. It was seen that that's the most
9 appropriate area to fund these increases for two reasons:
10 one, it is in water and two, by funding it from the water
11 usage charge you also get the effect of increasing usage
12 charges from its impact potentially on demand, although I
13 would qualify that by saying there isn't a lot of research
14 that really says that the price of water is such that
15 increasing its price by 18 per cent isn't really going
16 to decrease demand significantly. However, it moves that
17 usage price in the right direction.

18
19 I would like to say that council's financial model in
20 coming up with these prices indicates that we're trying to
21 maintain a reasonable level of cash and investments. Over
22 the price-path period they are going to drop considerably,
23 in the order of \$39m to about \$22m, and again council is
24 trying to maintain a not unreasonable level of debt,
25 although over this price-path period, with those proposed
26 price increases, debt will increase from \$62m to the order
27 of \$100m.

28
29 While 18 per cent on the usage charge at face value
30 appears high, I think it is important to consider its
31 impact on the total water sewerage charge that the consumer
32 sees because for the consumer, as well as the usage charge,
33 there are a number of fixed charges in there, a number of
34 charges that are increasing by CPI. From this table, the
35 majority of users are in this area here and for the
36 proposed price increases for 2005/2006 there are increases
37 in real terms in the 5 to 6 per cent range and over that
38 total period a 5 to 6 per cent increase per annum is what
39 we're talking about in the total water and sewerage charge
40 that is levied. It is worth noting here that we've
41 included drainage. I will be covering that a little bit
42 later, but I didn't want to disassociate it at this point.

43
44 It is also worth noting that, with the drought, usage
45 has decreased and in terms of the total bill that consumers
46 see there needs to be taken into account the reduced water
47 consumption. This table gives us an indication, in terms

1 of the total bill, of what an average customer would see
2 between 2001-2002 and 2008-2009. This column gives an
3 annual change and a cumulative change.
4
5 Now moving on to the perennial, developer charges for
6 Wyong Council have been capped at 85 per cent of cost
7 recovery since the introduction of technology in 1996.
8 That accounts for about a \$750,000 under-recovery and that
9 obviously needs to be reflected in the prices that the
10 consumers pay and the council once again requests that that
11 15 per cent or 85 per cent cap be reviewed with a view to
12 achieving full cost recovery in that area.
13
14 As to stormwater charges, council does not
15 transparently levy a stormwater charge at the current time.
16 The operation of capital expenditure costs for stormwater
17 is funded out of current water sewerage charges. This was
18 identified for the last determination and council in its
19 proposal for a two-year price path was proposing to
20 undertake the necessary study to come up with a pricing
21 methodology that could address that. Obviously, the
22 one-year price path hasn't allowed us sufficient time to
23 fully address that.
24
25 However, we have proposed an interim arrangement that
26 is revenue neutral. When I say "revenue neutral", it
27 provides for the stormwater charge to be taken from the
28 fixed charge for water supply and sewerage and the
29 component for stormwater be reduced by a corresponding
30 amount from those charges. The consumer at the end of the
31 day would see no change in their bill as a result of this
32 stormwater charge methodology, but what they would see is
33 an explicit stormwater charge, with their sewerage usage
34 charge and water usage access charges reduced by a
35 corresponding amount.
36
37 Council has engaged consultants to undertake the
38 necessary study to look at what should be the long-term
39 pricing methodology for stormwater within the shire. It is
40 not necessarily an easy question to answer. Our
41 preliminary investigations indicate there are a number of
42 models you can use. They range from very simple
43 postage-stamp charges where everyone just gets a fixed
44 charge to very complex charges where every property is
45 assessed on its area and size. There are huge
46 administrative costs in administering such a system. We
47 believe certainly from discussions with agencies that have

1 gone through this process, like Hunter Water, there is a
2 reasonable middle path that could be pursued, but it will
3 take us several months in the early part of this year to
4 pursue that path. We would hope to be in a position by
5 June-July of this year to have in place a methodology that
6 we could move forward with. We would like to put it to the
7 Tribunal how we could progress that.
8
9 We have in this determination provided a
10 recommendation for the full three-year price path.
11 However, there is obviously potential with the stormwater
12 charges being ring-fenced that short of that three years
13 the Tribunal could review the stormwater charges
14 independently if they so chose and we would like to discuss
15 that further with the Tribunal.
16
17 Council's trade waste charges in fact have been fixed
18 by the Tribunal since 1993, so it came as no surprise that
19 we were under-recovering in a number of areas. There has
20 been on the table for a number of years the need to review
21 those charges. While council is regulated by IPART in
22 relation to prices, we also have a number of other State
23 Government departments out there with their regulatory
24 fingers in the pie. One of those is DEUS. DEUS has been
25 working on a methodology for the last few years in terms of
26 trade waste charges. We know that because our trade waste
27 policy, which was implemented in the early 80s, was a very
28 early model of trade waste charging and Wyong Council
29 started being closely involved with the State Government as
30 basically the trade waste charging methodology has matured
31 over those years. Basically, we'll wait until that use
32 methodology is available and have carried out a review of
33 our charges based on that methodology which is based upon
34 full cost recovery.
35
36 The next slide shows you a comparison of what our
37 current charges are and what is included within the DEUS
38 methodology and you can see that there's a fairly close
39 alignment. Wyong Council has always had an annual fee, as
40 is the proposed fee. However, the proposed fee increases
41 to achieve full cost recovery. Council has never had an
42 application fee. Clearly, in assessing, particularly for
43 large industry, new trade waste applications there is a
44 significant cost for council. Inspection fees have always
45 existed, but again the reinspection fee that's proposed is
46 based on full cost recovery.
47

1 The trade waste usage fee proposed in the DEUS
2 methodology is intended to cover probably the most
3 difficult area of trade waste management. Within any area
4 there are a large number of small businesses, fastfood
5 outlets and the like, which are typically regulated by
6 requiring them to have a specified pre-treatment device,
7 typically an oil/grease arrester. It has been recognised
8 for a long time that unless those devices are adequately
9 maintained, they can in fact do nothing to remove the
10 amount of waste going into the sewerage system. This trade
11 waste usage fee is new but it is intended to achieve better
12 cost recovery in that area and council proposes that those
13 fees be introduced progressively or by a staged
14 introduction. Again, the excess mass charges and volume
15 charges typically used with managing the larger trade waste
16 discharges, council has had in place those sorts of systems
17 for a number of years and again there isn't a huge amount
18 of change in those prices.

19
20 This is a reasonably complex area. There is a large
21 interaction of all these prices and rather than go through
22 them individually and try to verbally compare them, the
23 next table gives you a comparison of the sort of impacts
24 that the new methodology would have on trade waste
25 discharge in the Wyong Shire. Again, the category one
26 discharge is the low risk areas and you see that their
27 charges would go from \$602 to \$631. That increase is
28 mainly involved in full cost recovery for the annual fee.
29 The annual fee covers the administrative costs and the
30 inspection costs for council ensuring compliance of those
31 with the trade waste requirements.

32
33 Category two - and this is the area where there is a
34 specified trade waste treatment device - again, the cost of
35 \$602 to \$652 and gradually increasing as the phasing in of
36 that price increase, that typically represents, as I said,
37 the two components, the full cost recovery for the annual
38 fee and a 10 then 20 then 30 cent per kilolitre increase in
39 charge to achieve better cost recovery in that area.

40
41 Category three is the large and high risk trade waste
42 discharges. Again, the movement from \$61,500 to \$61,600 is
43 involved in the higher annual fee which is the costs
44 recovery for the administration and inspections carried out
45 on those businesses. Again, where I've got "com" that's a
46 compliant waste, so, in other words, provided they're
47 complying with their discharge they will not see

1 significant increases in charges. However, on
2 category three there is a non-complying discharger: then
3 they could see increases or significant increases in their
4 charges. From council's perspective that is not
5 necessarily bad. That gives them some financial incentive
6 to want to comply with their discharge requirements.
7 Thank you.

8
9 THE CHAIRMAN: Thank you.

10
11 MR WARNER: We have a few questions for you, Ken. We note
12 that there have been large increases in both capex and opex
13 expenditures going forward, particularly when compared to
14 the Tribunal's efficient cost estimates. What assurance
15 can you give the Tribunal that the works will be undertaken
16 on time and within budget?

17
18 MR GRANTHAM: I think the issue of efficient costs was
19 discussed earlier by David, but I don't mind covering it
20 again. The costs that we provide to the Tribunal are
21 typically of two different types. One is forward estimates
22 and they are just that, estimates. It is of concern to
23 council the effort that should be put in to refining these
24 costs, bearing in mind to get a very close cost estimate
25 you would need to do a detailed concept at least of what
26 you're proposing. If that was done more than five years in
27 advance of when you're actually constructing it, you might
28 as well throw that out because you're going to have to
29 re-do that concept prior to then going into the detailed
30 stage prior to building it.

31
32 There is an issue on those long-range costs. On the
33 shorter range costs, typically they have been put into the
34 program based on consultants' reports and, as David
35 indicated, one of the largest consultants in Australia
36 provided us our costs of \$13m which 12 months later came in
37 with actual construction costs ranging from \$18m to \$23m.
38 We had a situation where the original estimate that we put
39 to the Tribunal for the Hunter connection was in the order
40 of \$20m and we were talked down by your consultants, who
41 started off at \$10m to \$12m, to \$15m which was put in the
42 submission. The next consultant is asking us why we
43 underestimated.

44
45 There is a lot of difficulty in coming up with cost
46 estimates that will accurately reflect the construction
47 costs because those cost estimates do not take into account

1 the construction market at the time tenders are called.
2 Our experience is that can vary very widely. In answer to
3 your question, Richard, council provides the best estimates
4 it can at the time based on the best information available
5 to it, but we recognise there could be changes.

6
7 MR WARNER: Just on the issue of time limits, I notice
8 that in the past you've underspent on capex from time to
9 time. How can we be assured you're going to actually spend
10 this money?

11
12 MR GRANTHAM: Again, council puts in its forward works
13 program based on an estimate of resources and time
14 commitments. I am the first to say, particularly over the
15 last four or five years, council has had to divert a lot of
16 its resources to drought management-type works and at the
17 same time as to the resources available from the industry
18 it's a very tight market out there, so we recognise some of
19 our works have slipped for those reasons. I think
20 Rod Williams indicated that the councils have engaged
21 project managers, in other words, a specialist project
22 management group, solely to deliver these capital works for
23 the future, so we're confident these future time frames
24 will be met.

25
26 MR WARNER: Just going on to stormwater, I think you
27 mentioned that the intention was that there would be an
28 offset in water and the sewerage components of the charges
29 to cover that. Are there no stormwater charges that come
30 from general revenue that would now be paid under this new
31 stormwater charge?

32
33 MR GRANTHAM: Currently, the drainage system is defined as
34 those areas that fall under the water fund and those that
35 fall under the general fund and they are clearly defined.
36 There is no cross-over between what the general fund pays
37 for and will continue to pay for and what the water fund
38 pays for.

39
40 MR WARNER: They're going to be kept quite separate but
41 still charged in both places?

42
43 MR GRANTHAM: They're separate but charged in both
44 places.

45 MR CATHERS: Just in relation to that question, as part of
46 stage two that Ken was talking about in his presentation we
47 were going to be examining the stormwater charges in

1 detail. One of the matters that we have been considering,
2 and indeed we believe it is a valid consideration, is to
3 say that the general fund in fact is liable for certain
4 stormwater aspects. There is a lot of debate around the
5 industry as to what is an appropriate charge in relation to
6 attributing stormwater, for instance, back to roadworks,
7 but we've looked at some industry practices from other
8 areas, and in fact a couple of them were suggested by the
9 secretariat to us, and we believe that there is an
10 appropriate way of defining, for instance, what stormwater
11 might be coming off roadworks that might be attributable
12 back to the general fund as part of that roadworks
13 activity. As part of that future examination we believe we
14 can provide that disaggregation.

15
16 MR WARNER: With respect to stormwater, I know with other
17 agencies there's a requirement that the property be in a
18 drainage catchment where there's actually stormwater works
19 in place. Yours seems to be on a water basis or a water
20 and sewer basis. Is there any nexus between them? Are
21 there people who get charged for water and sewerage
22 services that don't have a drain available?

23
24 MR CATHERS: In that relationship it depends on what
25 you're defining as drainage works. In our drainage
26 activity we include flood mitigation works, so the whole of
27 the stormwater cycle, if you like, has been examined in
28 terms of that disaggregation. I believe that our process
29 of alignment will in fact be fair and will have a nexus.

30
31 MR GRANTHAM: In coming up with that proposal a number
32 of options were looked at. One could have been just levying a
33 fixed charge on a property. However, again when we looked
34 at various models we found a reasonable nexus between the
35 relativity of a water supply charge and the relativity of a
36 drainage charge, the reason being large water users,
37 for instance, industry, typically have a large area, they
38 typically have car park areas, they typically have large
39 roof areas which contribute to the drainage system and they
40 typically use a larger amount of water.

41
42 If there is an interim arrangement before we look at
43 in detail how we will implement the drainage charge, if
44 we said, "We will just charge you a fixed amount but then
45 reduce your water and sewerage," what would have
46 happened
47 is they'd have got a large initial decrease in their water
and sewerage charge for a nominal drainage fee and then in

1 a year's time we might have been going back to them and
2 saying, "Now your drainage charge has to increase
3 significantly." We find it is a lot easier to hold
4 constant and then possibly decrease a bit than to decrease
5 a lot because people very quickly forget the decrease when
6 you go back and ask for an increase.

7
8 MR CATHERS: We will in fact be presenting these details
9 to our council in a briefing session over the next six
10 weeks. I mentioned that earlier in a discussion that we
11 had with the secretariat down in Sydney in relation to the
12 question as to what is the council's view about this
13 pricing proposal we've put forward and over the next six
14 weeks in that briefing process we will be running through
15 some detailed analysis to say, "Okay, what's happening on
16 the extremities in terms of some of the issues that you're
17 raising?" We haven't yet actually got some of those
18 modelling issues in place.

19
20 MR WARNER: You are proposing fairly significant price
21 increases for a number of customers going over a number of
22 years. What mechanism does council have in place to
23 address the possible hardship that people may suffer?
24

25 MR CATHERS: There are a number of factors. For instance,
26 some of those higher consumers will in fact be industry and
27 what we've been encouraging and helping industry to do is
28 to develop water management plans. That is one way that
29 we've been dealing with that matter. In terms of hardship
30 back to the residents, there is a hardship policy that the
31 council has in terms of dealing with an ability to pay
32 their bills, et cetera, or indeed, in a number of
33 instances, we've actually carried out some inspections on
34 their properties to identify to them why in fact they've
35 got a higher water bill and some of those have been
36 leakages and some of them have been, frankly, methods of
37 consuming water. There is a process whereby we can deal
38 with those matters.

39
40 MR WARNER: When you say "sometimes" how easy is it to
41 access that service?
42

43 MR CATHERS: Let me put it another way, Richard. I have
44 never heard of anyone complaining that there is a problem
45 in accessing that service. I am not aware of any issues
46 where people have said they've had difficulty accessing
47 that.

1
2 MR REID: Thank you, Richard. Just going back to the
3 stormwater issue again and the consultant's report that you
4 are having developed at the moment in consideration of
5 that, you were saying that you may have some proposals come
6 out of that in June and July. Given the interdependence
7 between the water, waste water and the stormwater charge is
8 it possible that the water and waste water charges that may
9 come out of this determination would subsequently have to
10 be adjusted for any change in the processed stormwater?
11

12 MR GRANTHAM: I can't see any reason. In terms of the
13 IPART process, the proposal or the interim proposal is to
14 influence the stormwater charge at the level of revenue
15 that council requires to basically carry out its stormwater
16 function. Maybe I'm being oversimplistic in this comment,
17 but I believe any changes would be related to how that
18 revenue is derived: in other words, between areas any new
19 charge would be either, again, revenue neutral,
20 redistributed how it was raised, or revenue increase if
21 IPART allowed the increase, or decrease if IPART directed a
22 reduction. I suppose the interim arrangement is trying to
23 come up with what is the closest or what is believed to be
24 the closest to what would be a long-term revenue split.
25

26 MR REID: In relation to your proposed trade waste
27 charges, and obviously there you're attempting to comply
28 with the DEUS guidelines, is there a formal process where
29 you require DEUS sign-off on that approach and those
30 charges and has that occurred?
31

32 MR GRANTHAM: Yes, there is a formal process for that and
33 DEUS have endorsed our process: in other words, that we
34 have complied in terms of what we proposed that complies
35 with their methodology.
36

37 MR CATHERS: We are yet to complete that process in terms
38 of public advertising and the council considering it,
39 et cetera.

40
41 MR REID: That is all from me.
42

43 MR COX: Thank you. I would like to just raise one area
44 which we haven't discussed greatly this morning and I think
45 it is important and I find personally difficult and that is
46 the issue of the rate of return. If I've read your
47 submissions correctly, you're proposing rates of return in

1 the order of 2 or 3 per cent on assets as you value them,
2 which clearly is well below the commercial rate of return
3 that we give for, say, Sydney or the Hunter. I am
4 interested if you could share with us council's thinking
5 about that. Are you concerned about not having a
6 commercial or greater return? How do you think about your
7 rate of return and why is 2 or 3 per cent enough?
8

9 THE CHAIRMAN: Can I just add to that question? It is a
10 major price increase you're proposing, CPI plus
11 18 per cent, and I suppose I was wondering whether first
12 fixed on the 18 per cent and then the rate of return fell
13 out and we decided on 18 per cent, is that an unfair
14 supposition on my part, but if it is fair, what led you to
15 decide on an 18 per cent real increase?
16

17 MR GRANTHAM: I think the only sense of the usage charge,
18 as the slides put up there indicate, in terms of the total
19 charge, in some areas it's CPI plus, or in most areas it's
20 CPI plus.
21

22 THE CHAIRMAN: A big number, yes.
23

24 MR GRANTHAM: Therefore, it was an issue that the usage
25 charge had been picked on for that particular reason, to
26 provide demand management incentive, whereas if it was in
27 the access charge, the fixed charge would go up, there
28 wouldn't be that incentive. That's why it was targetted in
29 that usage area. In relation to Jim's comment, the council
30 has expressed concern over a number of years over the rate
31 of return. IPART has specified a regulatory asset base and
32 that regulatory asset base is only a portion of the full
33 asset base. When rates of return are quoted based on the
34 IPART regulatory asset base, they are in fact probably
35 overstating the real rate of return by possibly a factor of
36 two or three.
37

38 Council does have concerns about that in terms of its
39 long-term ability to fund adequate refurbishment of its
40 assets. In the short term while assets are relatively new
41 and therefore expenditure on refurbishment is relatively
42 low, that is a problem and that is the current state that
43 the council is in. However, as the assets age there will
44 be an increasing cost burden in terms of refurbishment and
45 unless council is achieving an adequate return on those
46 assets, it will be in trouble funding that.
47

1 MR COX: Just looking over the short-term period when
2 we're making the determination, which is the next three
3 years, perhaps you could speak to the adequacy of the rate
4 of return over that period?
5

6 MR GRANTHAM: The council considers it adequate over this
7 period and I think there was one other question you asked -
8 why the 18 per cent? That was based on maintaining a
9 reasonable cash investment level and maintaining a
10 reasonable debt ratio. With respect to council's financial
11 model, I indicated on the previous slides what would
12 happen: in other words, council's cash investments will
13 decrease significantly, they'll halve over this period and
14 indebtedness will about double. As IPART has stated,
15 council is in a triple A financial position at present.
16 However, that financial position has been progressively
17 weakened and council has stated that at a number of these
18 hearings.
19

20 MR COX: Thank you for that. By the way, I am interested
21 for Gosford to address the same issues when they make their
22 presentation.
23

24 THE CHAIRMAN: I think it is at that point where we might
25 move on to Gosford. Thank you to Wyong Council.
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1 GOSFORD CITY COUNCIL

2
3 MR WILLIAMS: Thank you, ladies and gentlemen. Could I
4 just introduce Steve Diffey who is the manager regulatory
5 services. His role within the Gosford City Council is
6 basically to look after all regulatory matters, which
7 includes the environmental protection of our waters and
8 their requirements as well as IPART's and also the
9 arrangements that the water authorities within
10 Gosford Council have with other areas of the council itself
11 and also with the joint water authority. I would also like
12 to give the sincere apologies of Peter Wilson who would
13 very much have liked to have given this presentation this
14 morning, because the issue of pricing at Gosford City
15 Council is one of the most critical issues we face in
16 Gosford to make sure there's adequate revenue for the
17 council's operations and particularly for its water and
18 sewer functions.

19
20 I would like also, by way of introduction, to make a
21 bit of a comment about what are our concerns within Gosford
22 City Council. First of all, I would like to say it is
23 really about customer service and maintaining customer
24 service standards. Part of that is ensuring we have an
25 adequate infrastructure and that we can maintain the
26 quality of the water supply and also the adequacy of the
27 water supply. David Cathers gave a very good presentation
28 on that whole situation of council water supply.

29
30 There is also the issue of the quality of the water
31 that we're delivering and also the maintaining of the
32 infrastructure and the assets and that was something that
33 Ken Grantham alluded to in terms of obtaining sufficient
34 revenue into the future. That is one issue that I'm really
35 concerned about.

36
37 Overall there's that customer service thing, but
38 there's the issue of running it as a business in terms of
39 having a bottom line that's in the black and as you can see
40 from my presentation our water fund at the moment is in the
41 red, it has been for a number of years, and our sewerage
42 fund is also heading in that direction and that is partly
43 because of the pricing of IPART over recent times. You
44 will also see our operating expenses haven't really
45 increased, but it is really because of the drought that
46 we're placed in this situation.

47

.10/2/06 33 GOSFORD CITY COUNCIL
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1 In terms of our level of indebtedness, we have a very
2 low level of indebtedness but what we're facing is probably
3 a tenfold increase over this pricing period to meet those
4 demands that have been placed on us. Quickly running
5 through the presentation, and I know you want to discuss
6 some questions, IPART put out their review in which they
7 identified a number of things that they wanted the council
8 to look at. The drought contingency works - I think that
9 has been adequately covered in the previous presentation.
10 Stormwater charges - we made a special effort this year to
11 get each of the businesses identified within the water
12 authority, water, sewerage, drainage and stormwater, and
13 also to go to a point where there's no cross-subsidisation
14 from any of those three activities between the water
15 authorities.

16
17 Trade based charges - I know that you highlighted
18 that. Over the last year we've actually gone to DEUS best
19 practice and they've been adopted by DEUS and also by the
20 council and I don't think there is a particular issue
21 there, but if the Tribunal wishes to ask questions they
22 can. They have also asked some other things they wanted us
23 look at. One was the long-run marginal costs. My response
24 to that is really in relation to the two-tiered price
25 structure. I have been to council on a number of occasions
26 with these issues and the council has asked us to look at
27 the two-tiered price structure over the next year. They're
28 very concerned about the low level of recovery of our costs
29 and are looking at maybe having a two-tiered price
30 structure for a number of reasons; one is to address the
31 revenue shortfall, but also to put in some sort of
32 incentive for people to reduce their demand. The other
33 issue is the water sharing plans which have also been
34 covered in the previous presentation.

35
36 Basically, the situation is very similar to Wyong.
37 The expenditure that we require for the drought contingency
38 works is the \$21m. As you know, under the agreement that
39 we have with the Wyong Shire Council we share the costs of
40 those headworks. The opex costs are \$4m per annum and as
41 I've indicated that is solely due to the connection with
42 the Hunter, and then the groundwater costs at that time
43 will be coming on, that are already on, and will be
44 ratcheting up over the next year or so.

45
46 The stormwater charges - the drainage is currently
47 funded under the current situation at \$1.8m from each of

.10/2/06 34 GOSFORD CITY COUNCIL
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1 the funds and we've done our budgets for this coming year
2 and as I've indicated we're looking at that being totally
3 funded from drainage rather than money coming across from
4 the water and sewer funds. IPART has previously disallowed
5 that because they have seen that as cross-subsidisation,
6 something that shouldn't be run from the water authority,
7 or at least the costs weren't transparent as to where the
8 money would be spent.

9
10 Gosford City Council has now defined its stormwater
11 assets and proposes that these assets be owned by water and
12 sewer and what we're going to do, and in fact we have: we
13 presented those. We've done our SIR and AIR separately for
14 drainage, sewerage and water. Our stormwater/drainage
15 works are now looking to be funded from the drainage levy,
16 with no contribution from the water and sewerage funds.

17
18 The proposals that we're looking at, the options,
19 we've got all stormwater drainage, opex and capex being
20 fully funded by the drainage levy. This would mean an
21 increase from the current \$42 per property to \$100 per
22 property. Alternatively, what we looked at was that
23 council was to fund the majority of the stormwater drainage
24 opex with the current drainage level and then raise loans
25 to fund the capex. This would mean loan repayments would
26 be met by suitable increases in the drainage levy. The
27 result of that would be rather than going from \$42 to \$100
28 per property immediately, there would be a ratcheting up of
29 the cost to the drainage levy.

30
31 Initially, in the 2006-2007 years it would only
32 increase \$70 per property. Again, what I am saying is we
33 are looking for self-sufficiency in each of our funds. As
34 indicated, because of that we have had a lower impact in
35 the short term. Council would prefer to go to the loan
36 funds because that provides a lower increase in the levy
37 and then in subsequent years to take that up to \$10 per
38 year.

39
40 Trade waste costs, as the charge methodology has
41 indicated, we have aligned the trade waste policy with the
42 pricing regime of DEUS, their model, and best practice
43 pricing has been accepted by IPART in its last
44 determination. In terms of the long-run marginal costs, as
45 I said I think there's a bit of an issue there and also
46 I guess we probably need a bit of intellectual help in
47 terms of how we might look at long-run marginal costs.

1 There is an opportunity to look at that in terms of a
2 two-tiered price structure. What we're suggesting is that
3 maybe a working group could be set up and IPART develop
4 that because certainly IPART have the expertise to help us
5 take that forward. The water sharing plan has already been
6 discussed.

7
8 The two-tier price structure - IPART have approved the
9 two-tier price structure that we have with Sydney Water and
10 effective from October 2005 the usage charge increases for
11 water consumed in excess of 400 kilolitres per year. As
12 we've already heard, IPART believe that this would send a
13 strong signal to reduce water consumption. Like
14 Ken Grantham said, the price increase that we're looking
15 for at the moment probably will only have a small effect on
16 that. I think the studies that I've seen would indicate
17 that we would probably need a much higher difference
18 between the higher of the two-tiered pricing than the
19 current level of pricing that we've got in the water.

20
21 Council have had a bit of a look at this issue and
22 what we concluded is that there's been really insufficient
23 time to look at this issue and its impact on the users and
24 as David Cathers mentioned, we are having water management
25 plans with all our industries. There are 100 people who
26 have been brought into that program, all the users that are
27 over 600 megalitres a year, and this will give us a better
28 understanding of the elasticity question of having a
29 two-tiered price situation. I must say that there has been
30 some really good work done in terms of water saving within
31 industry as well as in private residences and some of the
32 industries have in fact reduced their consumption by
33 40 per cent, just as part of the drought and as part of
34 this water augmentation. As I mentioned, we're planning to
35 negotiate and extend that invitation for IPART to assist
36 us.

37
38 The cost drivers have not changed significantly since
39 our last presentation in October 2004. The drought
40 contingency capex and opex have been firmed up and they
41 remain much the same, but we're now much more confident in
42 the estimates that we've done. The desal design,
43 construction and operation costs have not been included in
44 this submission, although, as I indicated before, we have
45 expended some \$2m to date which we would like to try and
46 recover, although that wasn't provided for in the last
47 determination, the recovery of that cost.

1
2 Council is seeking the same price increases that were
3 proposed for 2006-2007 to 2008-2009 as we proposed in the
4 original October 2004 submission that we submitted to the
5 Tribunal. The price increases then what we're actually
6 asking is CPI plus 18 per cent. As we said, that is really
7 driven by the contingency plan which is the same as Wyong
8 put forward. We did put forward last time the
9 non-residential sewerage usage that that should be aligned
10 with the water usage charge because it is indicated the
11 revenue is falling with respect to the sewerage in terms of
12 what we need to do to maintain the assets that we've got in
13 our sewerage system. At this particular time because we're
14 aware that IPART haven't been too comfortable with
15 increasing costs overall, we have gone with the CPI
16 increase with everything else.

17
18 MR DIFFEY: Rod, can I just jump in very quickly? This
19 doesn't take into account the determination that came out
20 yesterday on the Mooney Mooney/Cheero Point price
21 determination. If the Tribunal wants to wrap up pricing in
22 this determination to include Mooney Mooney/Cheero Point,
23 we would propose a CPI plus 2 per cent rise in the sewer
24 service charge and that would allow us to service the capex
25 that we're going to need to raise as a result of the
26 determination that came out yesterday.

27
28 MR WILLIAMS: Thank you, Steve. What that means in terms
29 of water and sewerage charges, just applying those factors
30 I mentioned in the previous presentation there, water usage
31 is currently 92.5; next year that will go to \$1.12, \$1.35
32 and \$1.64. The water service charges, the residential
33 sewerage charges, the non-residential sewerage charges and
34 non-residential sewerage usage charge would only be going
35 up by the CPI. There is a note there saying that the
36 non-residential sewerage usage charge excludes the
37 90 per cent factor. In actual fact, the reading on the
38 water meter rather than it being 78 cents for this current
39 year, they're actually being charged at 10 per cent less
40 than that, at .9 times the .78. That is what that means,
41 applying the discharge factor that we applied to all our
42 users.

43
44 With respect to the comparison between our charges and
45 other agencies, Gosford and Hunter, that's really for the
46 community that might be in the room here, I am sure IPART
47 are well aware of our how our costs compare relative to

1 Hunter and Sydney Water.

2
3 In terms of the impost on our residents, we've done a
4 fairly detailed analysis there. What I've got there is
5 that currently if people are using between 200 kilolitres a
6 year and 250 what they would be paying on the basis of the
7 median there would be \$288.95. At the present time Gosford
8 residential users are using about 184 kilolitres per year,
9 so they're already down to something like on average
10 \$279.24 and with a continuation of the demand management
11 where we would be looking to keep people rather than at 260
12 kilolitres per year, which was mentioned in the previous
13 presentation, down to between 150 and 200 in terms of the
14 long-term target, and that's what we are looking at within
15 our Water Plan 2050, then the cost in fact would be falling
16 on most of the consumers.

17
18 This really reflects in our pricing submission and
19 also the question that was asked before. Our revenue, in
20 actual fact, has fallen and most consumers in fact are
21 paying in terms of a quantum amount less than they have
22 paid in previous years. This will be shown in another
23 graph: the old profit and loss statement for each of the
24 businesses. You will see that the water, as I mentioned,
25 is quite in the red. At the moment we're running at a
26 \$3.55m loss per year after income and interest expenses and
27 depreciation. We have a very low loan fund repayment at
28 the moment, so there's very little interest that we're
29 incurring in the business. Even so, because of the income
30 shortfall and our high expenditure we have a significant
31 loss in the business. Over the period, if IPART sees its
32 way clear to provide the increases we've asked for, you
33 will see it is not until 2009 that we will get that in the
34 black. Obviously, there's no return on the assets, the
35 revenue asset base, as I would see it, within that time
36 frame.

37
38 Going to the sewerage one now, that's a bit of a
39 better situation. Under the DEUS guidelines we have been
40 looking to pay a dividend to council and we have been able
41 to pay that within the last year, but as you can see there
42 the total profit and loss for the sewerage is only about
43 \$1m at the moment on something like \$300m of assets that
44 we're currently managing. A lot of our assets are 60 and
45 70 years old, although we got a new spurt of assets some
46 30 years ago, between 1975 and 1985, and some of those
47 assets need some large augmentation and refurbishment and

1 we need to address that issue as well. That is what we
2 would be looking for here because our past experience with
3 IPART is a CPI increase on our sewerage.
4
5 We have done a profit and loss table for drainage,
6 looking at all our revenue coming in or being provided by
7 loans, setting up loan funds, and our revenue coming from
8 the drainage levy and you can see there that we've
9 generated those totals there with short profit in the first
10 year and then a loss in subsequent years. Again, we're not
11 showing any return on the asset base in drainage.
12
13 The yellow there really shows how we need to get water
14 in 2008-2009 into the black. The yellow shows how our
15 profit is tracking in terms of our income. I mentioned
16 about the return on the asset base. There is also a very
17 low return on revenue, which is the other side of the
18 business I would like to look at.
19
20 The major projects that we've got within the system at the
21 moment are the telemetry system upgrade and expansion, the
22 North Avoca sewerage scheme, the Mooney Mooney/Cheero
23 Point sewerage scheme, the sewer treatment plant control
24 system upgrade, the energy performance contract, the sewer
25 pump station refurbishment, the septicity control contract,
26 leakage detection and repair, catchment-to-tap integrated
27 water quality, and that's part of the quality system we are
28 setting up to have good outcomes for our consumers, and the
29 CBD sewer upgrade. One of the big issues is where are
30 these 100,000 or 200,000 people who are going to come to
31 the Central Coast going to be located and one of the
32 answers to that is in the central business district of
33 Gosford. We need to upgrade both water and sewerage
34 systems.
35
36 Additional works to be funded - that was covered by
37 Wyong. Other internal programs are sewer mining for water
38 reviews; refit programs; non-residential water audits;
39 household leakage audits; rainwater tank rebates; main
40 renewals; meter replacements; Sydney Water purchases. The
41 operating cost drivers - there is the groundwater \$1.3m and
42 the purchases from the Hunter of \$2.5m, that was where I
43 got the \$4m from, and also a minor amount from Sydney Water
44 where we're spending about \$120,000 a year purchasing water
45 for the Mooney Mooney/Cheero Point residents.
46
47 One of the points that I did want to make in this

1 presentation is the real cost of water and sewerage to our
2 consumers, and this is taken from IPART. You can see back
3 in 1993 - Gosford is the pale green there at the top of the
4 table - in 2003 dollars it was costing the average consumer
5 about \$1,000 a year for their water and sewerage bills. At
6 the present time you can see that the current 2003 costs
7 for water and sewerage within Gosford is less than \$600.
8 There has been an almost 50 per cent reduction in the real
9 cost of water and sewerage to the consumer and in fact
10 we're the lowest of all the utilities that are shown there.
11

12 In terms of answering the question of how we handle
13 people that are in a hardship situation, we provide rebates
14 that are available to pensioners. We are a local council
15 and we have to respond very closely to the community. It
16 is 50 per cent of water service charges, 50 per cent of
17 water usage charges and the council also has an existing
18 hardship policy where people may make application to the
19 council for a reduction in their water and sewer bill or
20 because they're going through some financial strife and we
21 have a committee, on which I sit, and we consider those
22 applications that people might make.
23

24 As to our performance, I would like to say that we got
25 a prize, the Green Globe Award, last week for being one of
26 the best performers within the State. The typical water
27 residential bill is within the top 20 per cent: that means
28 it is the lowest in the 20th percentile. The other
29 residential bill is in the lowest 20 per cent there and the
30 bill for residential customers, also the number of
31 employees per 1000 properties is within the 40th
32 percentile. Microbiological water quality compliance - we
33 have 100 percent compliance on that; average annual water
34 consumption, we're also within the best 40 per cent;
35 treatment costs per property, we're in the best
36 20 per cent; and we recently won the DEUS Green Globe
37 Award. That is the last slide. Thank you very much.
38

39 THE CHAIRMAN: Thank you.
40

41 MR DIFFEY: Could we introduce Byron O'Loughlin, our water
42 and sewer finance officer, who may be able to help us with
43 some of the answers to your questions.
44

45 THE CHAIRMAN: Thank you.
46

47 MR REID: Thank you very much, Rod. Given that Steve

1 referred to the release of the Tribunal's sewerage
2 determination yesterday and you suggested a compensating
3 increase is the intention to put in a further submission
4 relating to that?

5
6 MR DIFFEY: To be honest, Colin, we haven't really thought
7 about it. We got it yesterday. We actually worked on a
8 press release to get something out to the public yesterday,
9 but how much we want to increase by is something we still
10 have to consider. We are mindful of what your
11 determination said. It indicated 60 cents per property
12 over the next 70 years. We have some issues with that. We
13 have to replace parts of that new system within 20 years
14 and we need to pay for that upfront and that has a real
15 impact on our rate of return on our RAB.

16
17 To be honest, we haven't had a chance to really think
18 about the exact impact. Somewhere in the order of 1 to
19 2 per cent on the sewer service charge on a 20-year loan we
20 believe would help us service the debt on the capex we
21 would need to raise.

22
23 MR WILLIAMS: Could I just add to that that one of the
24 things in being a local council is its responsibility to
25 the community and with this presentation we went to our
26 council to get sign-off on all these things that we went
27 for and I would think any impost of what we're looking for
28 in terms of that Mooney Mooney decision we would probably
29 want to take to the council and get their views on it.

30
31 MR REID: I understand. In the profit and loss statements
32 that you put up for various funds, the depreciation figure
33 in that, I just wanted to confirm that that was based on
34 depreciated or replacement costs or the regulatory asset
35 base as determined by the Tribunal.

36
37 MR WILLIAMS: That is on a straight-line depreciation of
38 our assets in total. That would be right, wouldn't it?

39
40 MR O'LOUGHLIN: Yes. It's actually not on the regulatory
41 asset base, it's on our total asset base.

42
43 MR WILLIAMS: That is what we have to replace. That is
44 the cost that we have to meet.

45
46 MR O'LOUGHLIN: Your depreciated regulatory asset base
47 would probably be on the lower side of that. That figure

1 in there was from our asset base.

2
3 MR REID: I understand. When you showed the comparison of
4 charges between yourselves and, for example, Hunter and
5 Sydney, as you indicated, the usage charge is still
6 considerably lower than those organisations. Your fixed
7 charge, just from a quick observation, appeared to be
8 higher. Have you thought of any additional or further
9 restructuring of the balance between the fixed and usage
10 charges?

11
12 MR WILLIAMS: We have and I remember sitting in front of
13 this Tribunal a year or so ago arguing that it should
14 remain constant or decrease and IPART, in fact, increased
15 it when we didn't ask for it to be increased. I would also
16 say that of the \$580 that the average person pays the usage
17 component fixed charge is only \$80, so it is only a small
18 proportion of that total charge. My argument would be that
19 if you want to put this on some economic rationality basis
20 then one would probably want to drive that fixed charge
21 down, because it should be related to the depreciation cost
22 or the replacement cost of the fixed assets that you have
23 to maintain, whereas the usage charge probably should
24 relate to the operating costs.

25
26 I know there are different philosophies you can use
27 but I think, just on balance, I would like to see it go
28 down, but, as I said, given IPART's determination last time
29 they applied a CPI to it, so we thought who are we to argue
30 with that?

31
32 MR DIFFEY: Could I also add that we also, as Ken Grantham
33 also pointed out, are answerable to DEUS and under their
34 best practice requirements for us to be eligible for
35 country town grants and also to pay a dividend to council
36 we need to head towards best practice. Their aim is to
37 have a 75/25 split between the variable charge, the usage
38 charge and the fixed charge and by raising only the water
39 usage charge and not looking for a significant increase in
40 the availability charge, we're clearly heading in that
41 direction, but in times of tough funding we're obviously
42 reluctant to see any charge go backwards, hence the fact
43 that we've pegged all ours at CPI, except for the water
44 usage charge.

45
46 MR REID: Picking up the issue that Jim raised in relation
47 to Wyong on the rate of return, I presume similar arguments

1 as put by Wyong would apply to yourself. Do you have a
2 targeted rate of return to which you would wish to aim in
3 the longer term?

4
5 MR WILLIAMS: Before taking up this job I always looked at
6 probably earning a commercial rate of return and my
7 predecessors probably argued fairly strongly against the
8 regulatory asset-based philosophy that was being applied
9 here or the rate of return even being assessed in terms of
10 the regulatory asset base. I understand why IPART uses
11 that. My private view - and it is not one shared by the
12 council - is that we would like to increase the rate of
13 return. The councillors themselves would certainly like to
14 increase the price of water. They have made that very
15 clear in both public and private meetings.

16
17 MR O'LOUGHLIN: You will also note the profit and losses
18 show a profit increase over the period. We're looking at
19 raising that rate of return from a very low rate at current
20 to - I'm not sure what it actually goes to, but it does
21 increase over the period.

22
23 MR DIFFEY: It is fair to say we did build in the rate of
24 return on the RAB into our financial model. It is an
25 iterative approach. We put in a number of different
26 scenarios mindful of IPART's views, DEUS's views, our own
27 views, council's views, and obviously we spoke closely to
28 Wyong as well and all that put together was how we came up
29 with our pricing proposal.

30
31 MR WARNER: A further question - we are aware from your
32 presentation that opex and capex expenditures are going up
33 fairly significantly. We know there are reasons for the
34 drought-related works to go up, but there are also other
35 works going up, sewerage works, those sorts of things, and
36 they're significantly higher than what were put to us last
37 year. I wonder if you could explain the reasons for those
38 and what scope is there for deferring some of those works
39 and whether council has looked at whether those deferrals
40 are possible?

41
42 MR DIFFEY: Yes. It is fair to say that what Rod said
43 earlier is pretty pertinent. We're trying to maintain a
44 level of service in the community which meets community
45 expectations and council expectations. Rod fields phone
46 calls all day every day on anything ranging from dirty
47 water complaints to broken water mains to any other range

1 of service complaints. We have an aging infrastructure and
2 we don't see deferral as a preferred option for dealing
3 with assets. We have main breaks happening on an
4 increasingly frequent basis purely because it is an aging
5 infrastructure. We are doing our best to deliver the
6 service expected by the community and that's reflective of
7 the costs or the proposed expenditures we have put to the
8 Tribunal.

9
10 MR WILLIAMS: If I can add to that that one of the other
11 big drivers, I guess, is the system. The sewerage area
12 I think is where you're alluding to in terms of the
13 increased costs. One of the other big drivers is the
14 Environmental Protection Agency requirements for system
15 management as a whole, not just in terms of the effluent
16 that comes out of our treatment plants but also in terms of
17 management of overflows and also to have four hours
18 retention of our wet wells during storm flows and that sort
19 of thing. We have upgraded the Terrigal system. We have
20 augmented something like nine pump stations in that
21 particular location. Other parts of the system, Avoca and
22 the CBD, are right up to capacity at the present time.

23
24 We face increased overflows if we do get wet weather
25 conditions returning. We have a very critical situation
26 facing us in terms of the extra 30,000 people that the
27 Government wants to relocate to Gosford and it is one of
28 the issues which we will be debating over the next week.
29 I guess it is how we deal with a metropolitan plan that
30 puts some 35,000 people coming here within the next 15 to
31 20 years. There is that issue that is facing us. The
32 other issues are things like the oyster industry and the
33 recreational industries. We have a \$10m oyster industry
34 within Brisbane Water and it is absolutely essential we
35 protect that industry.

36
37 MR WARNER: Going on to stormwater for a moment, how
38 can we be reassured that there is not going to be
39 double-dipping between the general council fund and the new
40 stormwater charge?

41
42 MR O'LOUGHLIN: We have actually separated our stormwater
43 charges and all the expenses related to that into a
44 separate area of council's accounting functions and that
45 area has to keep in balance with how much we're collecting
46 from the ratepayer or from any other sources, the grants or
47 contributions from water and sewer at present. We have

1 that mechanism in place to account for all the money that
2 we've received and spend in the stormwater area.
3
4 MR WILLIAMS: Could I just add to that that one of the
5 things we're trying to do is to get some transparency - and
6 I guess this is very much a theme of my own as well as
7 IPART - and to get all the costs separate and in balance
8 and also giving some return on the assets, however you
9 might want to define that. In terms of the stormwater, as
10 Byron said, we have separated those funds completely and
11 they're now completely transparent.

12
13 One of the other issues that IPART has raised with us
14 is how we are planning to share the costs of council, the
15 shared services that are provided. We are implementing, as
16 of this June, a system whereby council will only be paid
17 those costs where there are actually expenses incurred.
18 Rather than paying 25 per cent of council's costs in
19 certain areas, water and sewer is meeting those 25 per cent
20 of certain costs, like HR and finance. We would only now
21 be paying a proportion of those costs in proportion to how
22 we use those services. That will come into effect this
23 July.

24
25 MR WARNER: Is that change reflected in the submission
26 you've made to the Tribunal?

27
28 MR WILLIAMS: I understand it is, yes.

29
30 MR DIFFEY: Yes.

31
32 THE CHAIRMAN: I think we have exhausted ourselves on this
33 side of the table and perhaps you on that side of the table
34 also. I would like to thank you for your presentation and
35 we will now take a short break for 15 minutes.

36
37 SHORT ADJOURNMENT
38
39
40
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47

1 NCOSS
2
3 THE CHAIRMAN: Thank you, ladies and gentlemen. I would
4 like to ask the representative from NCOSS to make his
5 presentation.
6
7 MR MUKHERJEE: Thank you. The Council of Social Services
8 of New South Wales is a peak body for the social and
9 community services sector in New South Wales. We work with
10 our members on behalf of disadvantaged people in the
11 community towards achieving social justice. We provide an
12 independent voice on welfare policy issues and social and
13 economic reforms and are also the major coordinator of the
14 non-government social and community services sector in
15 New South Wales.

16
17 I would like, first of all, to thank the Tribunal for
18 the opportunity to speak to you today and present NCOSS's
19 views on the proposed price paths for water for residents
20 on the Central Coast. NCOSS is extremely concerned about
21 the proposed price increases, not only of water but of
22 other essential services that IPART has been considering
23 over the past few years, including energy and transport.
24 We are particularly concerned about the price increases of
25 these essential services on welfare dependent and other low
26 income households in New South Wales.

27
28 NCOSS believes that the prices of essential services
29 must be kept within the reach of low income consumers and
30 not be set at such a level to further disadvantage a group
31 who are already significantly disadvantaged in the
32 community. We think that the Tribunal should consider the
33 impacts of proposed price increases of all essential
34 services on low income households. In particular, for
35 monopoly services such as water we believe that ways need
36 to be considered in which price increases can be mitigated
37 for hardship or low income households by things like
38 improved management of payment difficulties through
39 affordable payment arrangements, bill smoothing systems,
40 like CentrePay, payment assistance schemes, as well as
41 water efficiency or efficiency systems, including retrofits
42 and no interest loans to low income households.

43
44 We were a little bit disappointed today hearing the
45 council's information that not a lot of time was devoted to
46 hardship policies, despite the significant price increases
47 proposed. The Tribunal will be aware of Professor Tony

1 Vinson's study Community Adversity and Resilience which
2 measured the concentration of disadvantage according to
3 postcode areas in New South Wales. This study found that
4 suburbs in the Central Coast, particularly in the Wyong
5 Shire area, suffer a high degree of disadvantage with
6 significant numbers of low income households in both local
7 government areas, many of whom rely on pensions and
8 benefits. We recognise that water bills remain small
9 proportionate to household expenditure. However, we think
10 that the proposed price increases need to be considered, as
11 I stated earlier, in conjunction with other essential
12 services, such as energy and transport.

13
14 One of our major concerns is the cost of living for
15 low income households keeps on increasing, we believe, at a
16 greater rate than for medium to high income households,
17 partly because low income householders as a proportion of
18 their income spend more on essential services than medium
19 to high income households and these essential services have
20 been increasing at a rate greater than CPI for a number of
21 years and look to continue to do so over a number of years
22 to come. The reason for that is that low income households
23 consume quite a different basket of goods to the medium to
24 high income households. CPI measures are based on a basket
25 of goods that is not reflective, in our view, of low income
26 households.

27
28 I stated earlier that there are four major areas that
29 the councils need to improve on in these services to the
30 residents of the Central Coast in terms of their water
31 pricing: payment plans, bill smoothing arrangements,
32 payment assistance schemes and retrofits, including no
33 interest loans as part of the current assistance schemes
34 and the like. Many low income households face fairly
35 short-term financial difficulties in paying a large bill
36 that comes every three months. Sometimes the bills come
37 together and low income households may not have budgeted
38 adequately over a period of time.

39
40 What we do find in the community services sector is
41 that people tend to pay their essential services prior to
42 other consumer items. Financial counsellors and emergency
43 relief providers will state that people want to pay their
44 water and electricity, telephone and such bills and then go
45 without food or, perhaps less significantly, their children
46 might miss out some activities at school. We believe that
47 payment assistance schemes or payment plans can help low

1 income households spread out their payment requirements,
2 meet their consumption of water, but still manage to
3 improve their budget and meet their ongoing requirements.

4
5 The Tribunal would be aware that CentrePay pays an
6 incentive for efficient use of electricity by the
7 electricity companies or the energy companies. We think
8 that could be extended to water companies as well. Both
9 Hunter Water and Sydney Water operate home assistance
10 schemes, with vouchers that are provided by the community
11 services sector, for payment of water bills. We think that
12 could be extended to the Central Coast as well. We also
13 believe that the New South Wales Government has a
14 responsibility in supporting some of these activities and we
15 have actually approached the New South Wales Government,
16 whichever minister it is today, and we've approached
17 various ministers over a period of time, to fund some of
18 these issues both in the Central Coast and the Sydney,
19 Hunter and outside metropolitan areas.

20
21 The last thing I wanted to talk about was no interest
22 loan schemes. I don't know about how much you know about
23 no interest loan schemes. These are community-based
24 programs that help low income people buy essential
25 household items. We know that many low income households
26 get by week to week, but if something breaks down in the
27 house, such as a washing machine, they get stuck with
28 having to purchase these fairly expensive items. No
29 interest loans provide small loans of \$500 to \$1,000.
30 These are usually repaid within one year. Many low income
31 households have older and less efficient whitegoods such as
32 washing machines which obviously consume more water and
33 energy, thus increasing their bills. The newer and more
34 efficient models tend to be more expensive than the older,
35 inefficient ones and low income earners will tend to buy
36 the cheaper models. Sydney Water has begun a trial of no
37 interest loans in its areas and we would be keen to see
38 councils trial a similar scheme in Gosford and Wyong.

39
40 We are particularly disappointed that the councils
41 have not significantly reviewed their hardship policies in
42 the light of their proposed price increases. We understand
43 that they have not consulted widely with the community
44 services sector on the Central Coast, in particular, the
45 Central Coast Community Council, which is the regional peak
46 of non-government human services organisations in Gosford
47 and Wyong. We believe that both of the councils could do a

1 lot more in terms of their hardship programs or these price
2 increases will further entrench significant disadvantages
3 in the Central Coast. That is all I wanted to say.

4
5 THE CHAIRMAN: Thank you.

6
7 MR REID: Thank you very much, Dev. I was wondering
8 whether you've had any specific feedback from your
9 Central Coast organisation on the performance of Gosford
10 and Wyong Council particularly in relation to water and
11 waste water bills?

12
13 MR MUKHERJEE: The specific feedback is that the hardship
14 programs are fairly inadequate as they currently stand.
15 The Central Coast Community Council has approached both
16 councils in recent years and the stance is the last IPART
17 determination really hasn't got very far and we talked to
18 them about their hardship programs. I admit that people
19 are not presenting water bills to most of the emergency
20 relief providers, but when you go into the detail behind
21 why they've presented to emergency relief providers, bills
22 such as water and electricity come up and they've paid
23 those and now they need a voucher for food.

24
25 There are some significant issues on the
26 Central Coast. Certainly emergency relief is stretched to
27 the limit on the Central Coast and we have been advocating
28 with the Commonwealth Funding Program for them to increase
29 funding on the Central Coast. We're hoping they'll do
30 that.

31
32 MR REID: You outlined various measures that you believe
33 are appropriate for the councils to adopt. Is there any
34 one of those that you would rate more highly than another
35 and do you have any anecdotal evidence, if you like, from
36 other jurisdictions? Do they come as a package, if you
37 like, as a most effective way of providing the type of
38 assistance that you're talking of?

39
40 MR MUKHERJEE: I think they come as a package. If I had
41 to pick two rather than one, I would say bill smoothing
42 assistance, such as CentrePay, is critical. You need other
43 forms of bill smoothing because it is only available to
44 Centrelink beneficiaries and pensioners; and affordable
45 payment arrangements, I think this is related to bill
46 smoothing, but I suppose I'm thinking more in terms of the
47 way that someone like Energy Australia manages their

1 payment system or their hardship program whereby if they
2 fall behind in a bill they don't immediately get penalised
3 for that, but are asked to participate in some sort of
4 program to repay their arrears and contribute towards their
5 future consumption. Those would be two critical ones.

6
7 No interest loans would be nice, though, because they
8 have two effects: one is to allow low income earners to
9 reduce their consumption and the other is to make life a
10 lot of easier for when their whitegoods break down.
11 Sydney Water is focused on washing machines and obviously
12 the councils could expand on that to other items as well,
13 but begin with water.

14
15 MR REID: One of the issues that has arisen, obviously,
16 with water charges is as it applies to tenants because a
17 bill goes to the landlord from the water agency and then
18 obviously under some of the tenancy arrangements the usage
19 component of bills is passed on then to tenants.

20
21 MR MUKHERJEE: That is correct, yes.

22
23 MR REID: I note in Sydney Water's current arrangements
24 they propose assistance to tenants in some specific cases.
25 Could we have your thoughts on that and secondly, given the
26 proposal to increase the usage charge relative to the other
27 charges, whether that impost upon tenants then becomes more
28 critical in that situation?

29
30 MR MUKHERJEE: Yes, it does become more critical because
31 it is immediately passed on. Increases to fixed charges
32 are usually eventually passed on to the tenant through
33 increased rents. That can take time if someone is on a
34 six-month agreement. That means they're not requested for
35 six months, but they are still usually passed on: it is
36 just a bit slower. One of the issues with tenancies is
37 that Department of Housing tenants now are required to pay
38 for water usage charges where their properties are metered
39 and until recently they weren't eligible for some of the
40 assistance programs that Sydney Water were offering home
41 owners. We think that is a big and important development
42 in the Sydney Water area and we would like to see similar
43 schemes across other areas. What was the first part of the
44 question?

45
46 MR REID: The first part of the question was relating to
47 what Sydney Water has done for the tenants and whether that

1 may be effective.
2
3 MR MUKHERJEE: Yes, we think that is applicable to other
4 areas. None of what I stated in terms of hardship programs
5 should apply particularly differently to tenants as opposed
6 to home owners, except obviously tenants only pay for water
7 consumption charges directly, not their commission charges
8 or fixed charges.
9
10 MR REID: Thank you very much.
11
12 THE CHAIRMAN: I might just pursue one issue a bit
13 further. You stated that IPART should consider the impact
14 of price increases on low income families. Let me say we
15 agree with that and in fact we're required to do that under
16 our Act and so we do do it.
17
18 MR MUKHERJEE: My point was you need to do it not just in
19 terms of each individual price path but collectively,
20 in terms of when you set prices for electricity and water
21 and transport and those other items you need to consider
22 the cumulative effect upon low income households, not just
23 individually.
24
25 THE CHAIRMAN: Just sticking with water at the moment,
26 which is the purpose of this exercise --
27
28 MR MUKHERJEE: Yes.
29
30 THE CHAIRMAN: -- I am seeking your reactions to the
31 previous presentations of the councils where I think what
32 we were being invited to conclude from those presentations
33 was that the overall impact on the typical household was
34 relatively modest, even to the point where it was arguable
35 that if they constrained their consumption, if only because
36 restrictions required them to, that the bill would be of
37 the same order or be possibly less than it had been a
38 couple of years ago, and in particular I think Gosford put
39 up a chart which, as I interpreted the chart, was over a
40 longer period, not the last couple of years, back to
41 something like 1990, and it was argued that the real price
42 of water and waste water services, et cetera, had fallen by
43 something of the order of 40 per cent in real terms. I am
44 just seeking your reaction to that. I think the lesson
45 we're being invited to draw is that the price proposals are
46 not unreasonable in terms of their impact on consumers.
47

.10/2/06 51 NCOSS

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1 MR MUKHERJEE: They might not be unreasonable in their
2 impact on typical households. I'm not talking about
3 typical households. I'm talking about a relatively small
4 but significant group of between - it depends how you
5 estimate it - 10 and 30 per cent living in poverty or on
6 low incomes. I don't want to get into the detail of how
7 you estimate it, it's a long and complicated process, but
8 the estimates vary between 10 and 30 per cent living in
9 poverty or on low incomes and for those people water,
10 electricity, gas and public transport charges are a
11 significantly higher component of their incomes than a
12 typical household. Therefore, significant price rises for
13 all those items impact upon low income households to a much
14 greater level, increasing their hardship, than the typical
15 household: that is my point.
16

17 THE CHAIRMAN: Pursuing that then, if it is not
18 unreasonable - and that's something we still have to reach
19 a judgment on - for a typical household but only for a
20 relatively small group, as you describe it, is the better
21 way to assist that relatively small group by payments
22 schemes, assistance in terms of demand management,
23 et cetera, than by applying a system through prices which
24 have to apply to everybody?
25

26 MR MUKHERJEE: Yes, I agree. You can have concession
27 pricing. We do have concession pricing - for example, in
28 Sydney Water for pensioners on fixed charges as to usage
29 charges - you can have those sorts of schemes, but they do
30 increase the complexity of the billing arrangements and
31 they're not always well targeted. NCOSS is currently
32 conducting a project on concessions in New South Wales on
33 essential services and one of our concerns is that
34 concessions are not well targeted and vary depending on the
35 organisation that offers the concession.
36

37 We do think that a significant part of mitigating
38 hardship is through managing consumer problems with
39 payments through bill smoothing arrangements, payment
40 assistance schemes and the like. We think that should be a
41 significant component of council's activities in water
42 supply.
43

44 THE CHAIRMAN: Thank you very much for that and for your
45 answers to our questions.
46
47

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1 THE CHAIRMAN: I would now like to call on the
2 representative from the Total Environment Centre.

3
4 THE TOTAL ENVIRONMENT CENTRE

5
6 MR MARTIN: Thank you. I am Leigh Martin and I am from
7 the Total Environment Centre. I think I could probably get
8 this done in a bit less than 15 minutes, which might get us
9 back on time. I only have a few issues, but they are
10 important issues nonetheless.

11
12 Probably from our point of view the most crucial issue
13 arising in this review is that of future water supply and
14 how the demand and supply imbalance on the Central Coast
15 will be dealt with by this pricing review. We noted that
16 there were three options presented in the Tribunal's
17 discussion paper as having been put forward for dealing
18 with current supply and demand issues and those were a
19 fairly major groundwater extraction, a substantial upgrade
20 of the link to Hunter Water Corporation to allow greater
21 volumes to be transferred from there and also the
22 construction of a 20 megalitre per day desalination plant.

23
24 We are extremely disturbed and extremely disappointed
25 not to see recycling added to that list of options,
26 particularly given that both the councils' performance in
27 terms of quantities of effluent recycling can only be
28 described as lamentable. We noted in our previous
29 submission to the Tribunal's earlier review that
30 Wyong Council had only planned to increase their degree of
31 recycling to 0.8 per cent by 2005. I don't know if that
32 target was met or exceeded, but even if it was exceeded by
33 some substantial margin it would still represent a very
34 poor performance on recycling. It is extremely
35 extraordinary that the councils could be considering the
36 expensive and extremely environmentally damaging option of
37 desalination without having done something to improve what
38 is a very, very poor performance in terms of effluent
39 reuse.

40
41 We would like to see the Tribunal require the councils
42 to launch detailed investigations into recycling options
43 and we would like to see the cost of those investigations
44 factored into the current pricing determination because it
45 is simply not viable for the councils to continue into even
46 the short term or medium term without a major effort on
47 recycling. I noted from the presentation this morning that

1 that is included in their longer-term strategies. The
2 Total Environment Centre would argue that that certainly
3 needs to be a much shorter-term focus and it is a crucial
4 and very urgent issue that needs to be addressed.

5
6 Of the three options that are presented, after
7 recycling I think probably the connection with Hunter Water
8 would be the least environmentally damaging. There is no
9 doubt that Hunter Water, unlike Gosford and Wyong Councils
10 and unlike Sydney Water, has a much more secure supply
11 situation and a much more abundant supply and it is
12 therefore relatively easily able to accommodate greater
13 transfers to the Central Coast. It would seem that that's
14 an eminently sensible path to pursue.

15
16 Our concern with desalination, as indeed it was with
17 the proposed Sydney desalination plant until a couple of
18 days ago, is that there are very major energy consumption
19 issues involved which of course has serious greenhouse gas
20 implications, but there are also other issues in terms of
21 disposal of highly concentrated brine, which is the
22 by-product of the desalination process, and disposal of
23 that presents its own environmental issues. We see
24 desalination certainly as an absolute last resort and it
25 should be viewed as such and certainly put below the other
26 options that are available.

27
28 In terms of groundwater extraction, notwithstanding
29 the decision that was made in terms of increased reliance
30 on groundwater extraction in Sydney, it must be stressed
31 that it cannot be viewed as an environmentally benign
32 option. It should be viewed, I think, as perhaps a less
33 environmentally damaging option than desalination, but
34 there are serious issues with ground water extraction and
35 one of those is that the level of extraction needs to be
36 managed very carefully. If the resource is overexploited,
37 significantly below the ability of the aquifer to be
38 recharged, then that can have a significant effect on
39 stream flows which are dependent on groundwater and also on
40 sensitive ecosystems such as wetlands.

41
42 Exploitation of groundwater needs to be viewed very
43 carefully and we certainly know that there are already
44 concerns on the Central Coast about the impacts of some
45 groundwater extraction for the bottled water market and
46 whether or not that current level of exploitation is
47 sustainable. I would say that groundwater is something

1 that needs to be pursued with great caution and certainly
2 should be viewed as an option. Whilst it needs to be
3 considered, it should not be considered in isolation of
4 other efforts such as recycling.
5

6 We are also concerned in terms of desalination. We
7 note that a report previously prepared for the Tribunal by
8 Atkins Cardno Consulting concluded that there was no
9 justification to be made for pursuing desalination at this
10 point in time given other options that were available and
11 that as a result those figures for desalination should not
12 be factored into the pricing considerations. We certainly
13 support that conclusion and we would urge the Tribunal not
14 to incorporate charges for pursuing desalination into the
15 current pricing review.
16

17 Another issue that emerged in the Tribunal's
18 discussion paper was the issue of demand forecast and
19 previously they have not included the effect of
20 restrictions because restrictions were viewed as a
21 temporary measure. We certainly recognise and agree with
22 the conclusion that it is unlikely that restrictions are
23 likely to be lifted within the next 10 years and so for all
24 intents and purposes they should be viewed as a permanent
25 fixture and should be factored into the current demand
26 forecasts and pricing considerations.
27

28 In fact, it is our very strong view that those
29 restrictions should be a permanent feature, irrespective of
30 what may happen in the future in terms of rainfall or other
31 sources becoming available. It is simply not sustainable
32 to maintain current water use patterns without
33 restrictions. I think it was very illustrative to see the
34 graph that was put up by the councils earlier this morning
35 which showed the difference in consumption levels without
36 restrictions and those with restrictions. It may be that
37 permanent restrictions would be of a lower level than is
38 currently imposed, but I think there is certainly a very
39 strong case to be made for permanent restrictions being a
40 part of achieving sustainable water management on the
41 Central Coast, as indeed we would argue it would be the
42 case for Sydney and has been adopted by major water
43 utilities around the country, such as Melbourne Water and
44 also South Australian Water in Adelaide.
45

46 The remaining issue I think is one of price
47 structures. We are very pleased to see both of the

1 councils moving towards an increased reliance on volumetric
2 charges as opposed to fixed prices. That is a reform which
3 we see as being crucial in sending an appropriate price
4 signal to customers and also giving customers some degree
5 of reward for any work that they may do to increase water
6 efficiencies, such as introducing water efficient
7 appliances or rainwater tanks. It is a major disincentive
8 to customers to change their appliances or introduce other
9 efficiencies if fixed charges remain high because it does
10 provide a significant restriction on the control that you
11 have over your bill. We have argued that consistently for
12 all the metropolitan water providers that the Tribunal
13 considers, that is, Hunter Water and Sydney Water, and
14 certainly in the case of the councils we believe that's an
15 important reform that needs to be continued.
16

17 We would also like to see a shift towards inclining
18 block tariff pricing for the councils and we welcome the
19 fact that both councils have indicated that they see value
20 in that system and that some work has been done to develop
21 such a structure. We noted from Gosford Council's
22 submission that they don't believe they're able to
23 introduce that at this point in time, which is just a
24 number of the issues that need to be worked through.
25

26 We would urge the Tribunal to require the councils to
27 undertake whatever studies and modelling need to be done to
28 develop an inclining block tariff price structure to be
29 presented at the next price review, because we see the
30 inclining block model as a very important step towards
31 providing a stronger resource conservation signal and
32 increasing the incentives for customer to moderate their
33 water use. Those, as I said, were the key issues for us.
34

35 I think the most important point is we are extremely
36 alarmed to see the councils considering desalination as an
37 option when so little work has been done on more
38 sustainable approaches, particularly recycling, and we
39 would ask the Tribunal to take that issue into account.
40

41 THE CHAIRMAN: Thank you very much. I would just make
42 the observation that personally I think there is evidence that
43 prices do affect demand, but I don't know there's much
44 evidence that prices affect demand where demand has been
45 restricted by contract restrictions. In other words,
46 I think that quantitative restrictions may more than
47 capture anything that prices would achieve, or the prices

1 that we're envisaging would achieve, and I note your
2 comment that you envisage that the restrictions will be
3 around for 10 years.

4
5 MR WARNER: I note that the TEC has an opposition to
6 desalination and supports much more extensive recycling,
7 but part of my problem is we've also heard from
8 Gosford Council that they expect their population to
9 increase by 33 per cent by I think it is 2030, which is a
10 third increase. What other options are there going to be
11 to make sure that there's a water supply available to this
12 area if they don't look at things like desal?

13
14 MR MARTIN: I think if you don't look at recycling you
15 will be forced to go down unsustainable paths such as
16 desalination. As I said, our view is, certainly in
17 connection with Hunter Water, of those options that have
18 been presented to the Tribunal and the public by the
19 councils the connection with Hunter Water is certainly the
20 most sustainable, but desalination we've always viewed as
21 an absolutely last resort. It appears to us as though the
22 councils are resorting to it at a somewhat earlier point in
23 time than they should. There is a major contribution that
24 recycling can play.

25
26 One of the few advantages in having such a low level
27 of recycling as is achieved on the Central Coast at the
28 moment is that your capacity to actually make some
29 efficiency gains is so much greater. I certainly think
30 that the councils should review recycling, whether that be
31 indirect reuse, non-potable reuse or in the longer term
32 potable reuse, that may be well the case in the longer
33 term, but when you're talking about such a low level of
34 recycling such as we have at the moment, the opportunities
35 there for taking pressure off potable demand with
36 non-potable recycling are significant and they should be
37 rigorously investigated and pursued. We don't see
38 sufficient evidence of that happening at this point in
39 time.

40
41 MR WARNER: My next question if we've heard that Gosford
42 and Wyong's property water consumption is low, I think it
43 is about 180 kilolitres, and that's about a 24 per cent
44 reduction over non-restricted periods. Their water
45 consumption is also low by national standards. I think the
46 national average is about 225 and that's down from about
47 250 a few years ago. In that light, it looks like the

1 people of Gosford and Wyong with actually pulling hard on
2 their oars. Is there a limit to the savings we can expect
3 people to make?

4
5 MR MARTIN: Ultimately, there must be but those figures
6 you have quoted more than anything give an indication of
7 just how valuable restrictions can be in terms of promoting
8 sustainable water use. That is one of the reasons we
9 argued very strongly that permanent restrictions are an
10 essential part of sustainable urban water management.
11 I think there are other opportunities there in terms of, as
12 I said, when the level of recycling is so low there have to
13 be significant opportunities to improve upon that and to
14 reduce the pressure on current potable supplies.

15
16 I was also interested in some of the points that the
17 previous presenter from NCOSS made about the issues facing
18 many vulnerable customers. It is difficult for them to
19 convert to more efficient appliances in their homes because
20 of the difficulty in actually meeting that one-off expense.
21 I think there is a significant capacity for water
22 utilities, including the councils, to actually seek out
23 those vulnerable customers and assist them to make the
24 switch towards more efficient appliances and that has not
25 only a benefit in terms of reducing demand, but also
26 ultimately it will assist those customers by reducing the
27 size of their bills.

28
29 I think there are always more opportunities for
30 efficiencies, obviously there are a lot of diminishing
31 returns that come into play, but I would argue that coupled
32 with water restrictions and recycling there is still quite
33 a great deal of work that can be done on the Central Coast.

34
35 MR WARNER: Thank you.

36
37 MR REID: Thank you.

38
39 THE CHAIRMAN: Thank you very much.

1 THE CHAIRMAN: I will now ask the representative from the
2 Public Interest Advocacy Centre to come forward and make
3 her presentation.

4
5 THE PUBLIC INTEREST ADVOCACY CENTRE

6
7 MS FREEMAN: Thanks very much to the Tribunal for inviting
8 PIAC to present today. My name is Elissa Freeman and I am
9 very pleased to be here. We have heard some pretty
10 interesting discussions so far today about some of the
11 impacts of the price changes that can be expected over the
12 next three years. What I want to turn to right now is what
13 we've seen happen over the last year, the one-year
14 determination that the Tribunal made just one year ago, and
15 then to use that to look forward a bit more and see what we
16 can expect over the next three years.

17
18 In last year's determination we saw a 20 per cent
19 price increase on volumetric charges, which is what we are
20 now looking at for the next three years in Gosford and
21 Wyong. That 20 per cent price increase on the volumetric
22 charges came with two very important disclaimers, I think.
23 One was that there was going to be a limited demand
24 response available for residential consumers to actually
25 respond to that price. That is something I want to talk
26 about. The second was that there were some really
27 important social policies that needed to be developed
28 around that price increase and that is something that has
29 been touched on today, but I don't think it has really been
30 adequately addressed as yet by the councils.

31
32 First of all, in terms of demand signal, when is the demand
33 signal appropriate and how can we understand whether
34 a volumetric price increase of 20 per cent over the next
35 three years is going to have the impact that the councils
36 are talking about? Firstly, I would like to see some
37 evidence about what has happened over the last year. Have
38 consumers been able to reduce their usage? We haven't seen
39 those figures. Like I say, that's a 20 per cent increase.
40 That is a fairly significant price shock for consumers to
41 be responding to. If there hasn't been a response then why
42 hasn't there been one? I think there are some really
43 important factors that Dr Keating started to touch on.
44 Those are related to the context in which we're looking at
45 the pricing review now.

46
47 There has been a fairly extensive drought. This is a

1 fairly water conscious community. On top of that I would
2 add that we're looking at a region that is fairly
3 significantly socially and economically disadvantaged. We
4 have water restrictions that are going to be in place for
5 the next three years. We have a limited price elasticity
6 available to specific classes of customers that I would say
7 are over-represented in this particular region and we're
8 not looking at discretionary demand being reduced but
9 non-discretionary demand being reduced.

10
11 I think that is where we need to understand the role
12 that social policies play in assisting customers to reduce
13 demand. There were three very specific things that IPART
14 asked the councils to look at and one of them was
15 assistance in purchasing water efficient appliances. What
16 that particular program does is it enables some of those
17 lower socio-economic groups to access water-efficient
18 devices that would not otherwise be accessible to them.

19
20 What I would like to see now is some better
21 justification of why increases in volumetric charges should
22 be applied to residential bills at this time. I have heard
23 both councils today say that a 20 per cent increase is an
24 effective demand management signal. As we heard earlier,
25 this is an extremely water conscious community. If there
26 is an effective demand signal where is that demand coming
27 from and how is the community going to be able to respond?

28
29 The second thing I would like to move to is how we
30 understand water affordability in the community and that
31 has been touched on already today. Some of the price
32 increases when you average them out look fairly reasonable
33 on plain-face value: 6 per cent, 7 per cent. What's the
34 difference between 5 per cent or 6 per cent? I would
35 suggest that a better way of understanding affordability is
36 by looking at a more incidence analysis approach and
37 looking at the impact of price increases on specific
38 classes of customers, like tenants, both public and private
39 and like low income households and other segments of the
40 community such as pensioners.

41
42 The reason for this is that water affordability across
43 Australia is generally seen to be not a problem per se. It
44 is when you start to get into those marginal areas that you
45 really see the impact of price increases. I think looking
46 at tenants is an important example because we start to see
47 how social policies need to be responsive not to overall

.10/2/06 59 PIAC

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1 affordability issues but the specific needs of groups
2 within the community. Tenants are a good example of this.
3 Both private and public tenants are now paying their full
4 volumetric charges in New South Wales. This is obviously a
5 policy change that has come outside of the councils'
6 control but nevertheless needs to be taken into
7 consideration when setting the water prices now.

8
9 I think it is interesting to note that tenants often
10 miss out on water efficiency information. They often miss
11 out on access to pensioner rebate schemes, other concession
12 schemes and payment assistance schemes. PIAC recently did
13 some research looking at how these different groups have
14 fared across the State. With the implementation of best
15 practice guidelines consistently around the State we hear
16 reports coming back that tenants aren't getting adequate
17 information about how to reduce their water consumption and
18 also quite simply don't understand the charges that they're
19 paying.

20
21 Department of Housing tenants are now going to be
22 claiming their water usage charges and this applies to
23 households even where they're not separately metered. If
24 you have questions today you'll have to take that up with
25 the State Government. I don't know how quite they're going
26 to be doing that. In any case, Department of Housing
27 tenants are going to be a factor from now on in considering
28 the impact of water charges.

29
30 I think this is important because we need to
31 understand what a 20 per cent increase means for some of
32 these segments of customers. Tenants don't see a
33 9 per cent increase; they see a 20 per cent increase.
34 They're going to see that year on and that's a 20 per cent
35 increase over the next three years. While you may say
36 that's a small component of the bill, where you're looking
37 at a population that is significantly socially and
38 economically disadvantaged that is a considerable input and
39 a considerable demand on limited financial resources.

40
41 There has also been a big discussion about what's
42 happening overall with residential bills and I would like
43 to make a brief comment on that. Residential bills are now
44 back at their more historical levels. There have been some
45 decreases over the previous years as people did respond to
46 drought conditions, did respond to water restrictions and
47 were able to curb their demand at a greater rate than

1 prices were increasing. I don't think that we can say that
2 that's still the case now. I think when we look at what's
3 happening overall with water prices in this region they're
4 now comparable to other major water utilities and they're
5 comparable to local water utilities across the State.

6
7 If I may also comment that I think some of those big
8 decreases that were seen in the graph earlier this morning
9 also reflect some of the great efficiencies that the
10 councils have made to reduce costs and therefore overall
11 reduce prices for consumers.

12
13 What I've talked about so far is really about the
14 structure and level of prices. I briefly want to touch on
15 some of the investment choices that are being made and
16 could I take a moment just to reflect on what's happened in
17 Sydney just recently with the change in position from
18 desalination. To me this really highlights the importance
19 of community consultation in some of these big investment
20 decisions. I am looking now to the councils to ensure not
21 just that they are able to meet their capital expenditure
22 over the next few years, but that their communities are
23 happy to support that program of investment as well.
24 Alongside that comes any changes that are being considered
25 in tariff structures. I think that consumers need to be
26 consulted very sincerely and effectively if councils are
27 going to be looking to some price structure changes in the
28 next period.

29
30 Another important mechanism of community consultation
31 is effective complaints mechanisms and this was something
32 that the councils had briefly discussed in their
33 submissions. The Energy and Water Ombudsman in New South
34 Wales has a complaints mechanism scheme that's available to
35 any utility should they decide to become members and I
36 think we heard earlier today that councils hadn't been
37 receiving complaints about hardship policies. Perhaps if
38 we wanted to look at a more transparent way of assessing
39 complaints councils may want to consider signing up to the
40 scheme.

41
42 I want to finish up by saying that it is kind of nice
43 to come at the end of the day because what I wanted to end
44 on is how we balance some of these objectives. It is a
45 pretty hefty task to balance social, environmental and
46 economic objectives in water policy. From where I am
47 sitting I'm a bit concerned that social objectives have

1 taken a back seat in the last determination and I think if
2 they don't get greater consideration now, in three years
3 time the position is going to be much more difficult to
4 assess. Like I say, that is because we just haven't seen
5 sufficient development of social policies to assure the
6 community that social objectives are being adequately taken
7 into consideration in the current investigation. That is
8 all I wish to say.

9
10 THE CHAIRMAN: Thank you.

11
12 MR REID: Just picking up the question that
13 Professor Keating asked of the previous presenters, and I
14 suppose that's the issue of looking at general price
15 assistance across the whole community to targeted
16 assistance, I am wondering whether you wanted to expand on
17 your thoughts on that specific issue?

18
19 MS FREEMAN: It is an important question to consider.
20 I think if we had more on the table now we would be in a
21 better position to discuss what's effective. The first
22 place to start is to actually break down the community to
23 look at different segments, to look at price impacts as
24 well as concession impacts and access to a whole range of
25 schemes. I just don't feel there's enough on the table
26 right now to even adequately say whether price is
27 sufficient or concessions are sufficient.

28
29 MR WARNER: I will ask the same question I asked of the
30 previous speaker. We've heard that Gosford and Wyong have
31 a household consumption of about 180 kilolitres which is
32 much less than the national average and it is certainly
33 less than it was some time back. Is there a limit to the
34 savings that we can reasonably expect householders to
35 generate?

36
37 MS FREEMAN: My concern is less that there's a limit but
38 more there's not a limit and what happens when that limit
39 starts breaking and that's when we see householders
40 rationing their water use rather than stopping water use.
41 It is like curbing water use at a particular level. We can
42 have a safe and efficient water system, but if it is priced
43 outside affordability concerns for groups within the
44 household then I think what we're going to see is there's a
45 risk that householders are going to have to ration their
46 water use rather than cutting back on other areas of
47 expenditure.

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1
2 MR WARNER: You also spoke about tenants and the fact that
3 putting a big emphasis on pricing on the usage component
4 adversely affects them. What is the right mix between
5 fixed and usage charges, in your view?

6
7 MS FREEMAN: It is a really difficult question and I think
8 from where I'm sitting that's something that changes over
9 time and it is something that needs to be responsive to the
10 environmental and social conditions of the community that
11 you're looking at. When I look at this community, it is in
12 the midst of a very long drought; they've responded
13 appropriately. There are high levels of social
14 disadvantage in the area. In order to determine that mix
15 I would be looking to see what is the level of tenancies in
16 the area and if it is particularly high then we need to
17 think about offsetting some of those volumetric charges to
18 the fixed charges in order to better reflect the social
19 dynamics in the community.

20
21 MR WARNER: I have one other question. Social welfare
22 schemes either have to be funded by government or the local
23 council. I am just thinking about the local council for
24 the moment. We've spoken about the fact that there's a
25 large disadvantaged element in the Central Coast
26 communities. If we were to recommend extensions to social
27 welfare-type systems then that's got to be funded by
28 increasing the prices that other people are paying. Aren't
29 we getting into some sort of situation of a dog chasing its
30 tail?

31
32 MS FREEMAN: I am sure there's a dog somewhere around
33 there. I think there's probably not much that needs to be
34 done to have a big impact on the community. I think that's
35 probably a better way of looking at the situation.
36 Obviously, the councils are working hard as businesses to
37 address some of their water conservation needs and that has
38 substantial benefits for the entire community. I would
39 suggest that the cost that's involved in addressing some of
40 these extreme and marginal cases of social disadvantage
41 have great benefits to the community as well and if we look
42 more broadly then probably the costs that are involved
43 aren't significant and don't necessarily mean that there
44 are too many dogs chasing their tails.

45
46 MR WARNER: If the Tribunal was to make recommendations
47 to government in relation to social policy what would you

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1 suggest those recommendations should be?
2
3 MS FREEMAN: I would like to see it reflective of the
4 community that exists here and particularly noting that
5 they are a very water conscious community already. I think
6 something like a NILS scheme, something that enables people
7 to now go beyond where they haven't been able to go before,
8 would be a really positive step forward for the community,
9 but I think we need to look at those extreme cases of
10 hardship. Some sort of payment assistance scheme isn't
11 going to cost much and I think that needs to be part of the
12 equation now as well.

13
14 MR WARNER: Thank you.

15
16 THE CHAIRMAN: Thank you very much, Elissa. We are
now at
17 the point where anybody who has managed to sit through
18 today's proceedings is welcome to voice their opinion or
19 ask a question.

20
21 MR GRANTHAM: Could I just clarify one issue that is,
22 of course, important to Wyong? Wyong's recycling of
23 effluent is about 10 per cent. We are targeted at
24 0.8 per cent. I am not sure where that came from. Not
25 only has Wyong achieved the 0.8 per cent but it has gone
26 well and truly beyond it. The Total Environment Centre
27 gentleman quoted the recycling of effluent by Wyong Council
28 as being 0.8 per cent. Wyong has gone well beyond that and
29 is continuing that thrust.

30
31 THE CHAIRMAN: There are no other questions or comments?
32 I might bring the hearing to a close. As I said at the
33 outset, this is a stage in us reaching a pricing
34 determination and we haven't reached any conclusions at
35 this stage, so I can't share them with you because there
36 aren't any. I suppose for my own part what I have got from
37 this hearing is, if anything, things are a bit more
38 complicated than when I got here. For example, the
39 councils' presentations today drew out quite a number of
40 things that they want to think about further, like two-part
41 tariffs, for example, but even the question of the
42 Mooney Mooney/Cheero Point backlog sewerage, whether
they
43 want to see some sort of recovery of their contribution to
44 that program through price increase and how they would do
45 it, et cetera, it's got to go back to the council, and then
46 things like desalination, I think you would have to say the
47 status of that is quite uncertain at this stage. Nothing

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1 has ever been before the councils, as I understand it, so
2 we are left with considerable uncertainty in terms of
3 determining a three-year price path.
4
5 What has also been presented to us, quite forcefully,
6 is that getting the balance between economic, social and
7 environmental considerations is perhaps even more difficult
8 than usual in the case of the Central Coast. On that happy
9 note, I will declare the hearing closed. Thank you.

10
11 AT 12.50PM THE TRIBUNAL ADJOURNED
ACCORDINGLY

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