

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

**METROPOLITAN WATER PRICE REVIEW
GOSFORD AND WYONG COUNCILS**

Tribunal Members

Dr Michael Keating AC - Chairman

Mr James Cox

**Ms Sibylle Krieger Held at Quality Inn, The Willows
512 Pacific Highway, Gosford North NSW 2250**

On Friday, 14 November 2008, at 9.20am

.14/11/08 1

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1 WELCOME AND INTRODUCTION

2
3 THE CHAIRMAN: I would like to begin by welcoming you
4 all to this public hearing being conducted by the Independent
5 Pricing and Regulatory Tribunal into water, sewerage and
6 stormwater prices for the Gosford City Council and the
7 Wyong Shire Council for the period which will commence on
8 1 July 2009.

9
10 I should begin by introducing ourselves. I am Michael
11 Keating, and I am the chairman of the tribunal. I am
12 joined on this review by my fellow tribunal members,
13 Ms Sibylle Krieger, on my right, and Mr Jim Cox, on my
14 left. Jim is also the chief executive of the tribunal.

15
16 IPART last conducted a review of prices of water and
17 related services for the Gosford and Wyong councils during
18 the 2005-2006 financial year. The pricing determinations
19 made at that time covered the period from 1 July 2006 to
20 30 June 2009.

21
22 This present investigation being conducted by the
23 tribunal will cover the period commencing from 1 July 2009.
24 The tribunal has not yet decided on the length of the
25 determination period and is open to suggestions in this
26 regard. I note that both councils have suggested a
27 determination period of four years. That would mean that
28 the determination would expire on 30 June 2013.

29
30 At the time of our previous determination in 2006, as
31 I am sure most of you are aware, the Central Coast was in
32 the midst of a very serious drought and the expenditure
33 programs of the councils had been heavily influenced by the
34 need at that time to secure the water supply to the Central
35 Coast, and to make investments to cater for a growing
36 population. At the time, the councils had decided to
37 augment the capacity to transfer water from Hunter Water's
38 system and to make greater use of groundwater sources.

39
40 Since the 2006 determination, the water supplies in
41 the Central Coast have improved somewhat and I understand
42 that they currently stand at over 30 per cent of capacity.
43 That, of course, is a significant improvement on the level
44 of a year ago of less than 10 per cent. Nevertheless
45 30 per cent is still pretty low and the issue of security
46 of water supplies may well feature in this inquiry.

47

.14/11/08 2 INTRODUCTION

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1 As part of this investigation, the tribunal released
2 an issues paper in July this year, which set out key
3 aspects of the review process. That issues paper outlined
4 some of the matters the tribunal considers important to
5 this review, its general approach to price setting, the
6 matters that its Act says we must take into account in
7 conducting our investigation, and a draft timetable for the
8 review.

9
10 In the issues paper, the tribunal called for
11 submissions from both Gosford and Wyong councils. It also
12 invited the councils' customers and other stakeholders to
13 make submissions.

14
15 I want to record that the tribunal is appreciative of
16 all of those of you who have taken the time to make a
17 submission. Some of the organisations that have made
18 submissions to the review will be presenting to this
19 hearing today. All of the submissions received will be
20 carefully considered by the tribunal in developing its
21 findings and recommendations.

22
23 I want to assure you that the tribunal considers this
24 to be a very important investigation. As is now well
25 known, the Central Coast faces the significant and
26 potentially growing imbalance between the supply of and
27 demand for potable water. This is both a short-term
28 imbalance caused by drought as well as a longer term
29 imbalance reflecting expected population growth.

30
31 Although the water storages in the region have
32 recovered somewhat since the low point reached in 2007, the
33 region, as you all know, faces significant water
34 restrictions. There are a number of factors causing this
35 imbalance. As I mentioned, clearly the growth in the
36 number of people moving into the area and drawing on the
37 water supply is a factor and, of course, the drought is
38 another factor.

39
40 Bringing water supply and demand into balance will
41 require significant expenditure. Inevitably increased
42 expenditure will need to flow through to the prices that
43 customers have to pay. It is a key part of the Tribunal's
44 role to scrutinise these and other expenditure proposals to
45 assess whether the costs are efficient and justified and
46 whether they should be passed through to customers. This
47 hearing will consider those issues.

.14/11/08 3 INTRODUCTION

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1
2 On the issue of water security, it is well known that
3 the New South Wales Government has endorsed a proposal for
4 the Hunter Water Corporation to build the Tillegra
5 Dam. The tribunal will need to consider the efficient cost
6 of this project and who should pay for it and how.
7
8 While this aspect will be explored more fully at the
9 public hearing into the Hunter Water pricing proposals,
10 which will be held on 12 December this year in Newcastle,
11 there are aspects that the tribunal will need to canvass
12 here today. More particularly, the tribunal will need to
13 consider whether and to what extent costs should be shared
14 between residents of the Hunter region and residents of the
15 Central Coast.
16
17 The tribunal is also aware that the Central Coast
18 Joint Water Supply Authority has its own plans to secure
19 water supplies for the region such as the Mardi to Mangrove
20 Dam link. These will also need to be considered as part of
21 this review.
22
23 In the context of the supply and demand imbalance, the
24 level and structure of water prices may be important in
25 encouraging consumers to limit their demands. In this
26 regard, a lot has been said over recent years about
27 scarcity pricing or a pricing regime where the price of
28 water above a basic "lifeline allowance" is then allowed to
29 vary to balance supply with demand. It has been suggested
30 that this type of approach would obviate the need for water
31 restrictions and the tribunal would be interested in
32 hearing views on this question.
33
34 This hearing is a very important part of our overall
35 price review process. It provides an opportunity for the
36 tribunal to hear in a public forum from the water
37 businesses and other key stakeholders and for the tribunal
38 to question the propositions that have been put forward.
39
40 The submissions made by the councils together with
41 other submissions and consultants' reports are available to
42 the public through the Tribunal's website.
43
44 Before I actually commence proceedings today, I need
45 to say a few words about the processes for this hearing. I
46 think you all have available to you a timetable which
47 indicates the order in which organisations will be

1 presenting before the tribunal. For each organisation
2 appearing, we have allotted a presentation time. We have
3 also allowed for a period of questions after that. In
4 order to ensure that we stick to our timetable, I would ask
5 the presenters to stick to their allotted time.
6
7 Assisting the tribunal today are tribunal secretariat
8 members - they are sitting at the second table to my left -
9 Richard Warner, who is the program manager for metropolitan
10 water pricing, and next to him is Lucy Garnier, who is the
11 senior analyst. Richard and Lucy will be asking questions
12 of the presenters.
13
14 At the conclusion of all the scheduled presentations,
15 I will make time available for members of the public to
16 express their views and opinions on the proposals that have
17 been put before us by the councils and other stakeholders.
18
19 We commence today with the representatives from the
20 Joint Water Supply Authority made up of representatives of
21 both Gosford City Council and Wyong Shire Council. When
22 you come forward, I would ask that you state your name and
23 organisations and positions for the record and then make
24 your presentation, thank you.
25
26 JOINT WATER SUPPLY AUTHORITY
27
28 MR WILLIAMS: Rod Williams, director Gosford City Council.
29
30 MR CASEMENT: Garry Casement, headworks manager for
31 the Joint Water Supply Authority.
32
33 MR GRANTHAM: Ken Grantham, consultant.
34
35 MR CASEMENT: Thank you very much for the opportunity
36 to talk to you. I will give you a brief presentation on the
37 joint water supply issues.
38
39 The Central Coast water supply is provided by Gosford
40 City Council and Wyong Shire Council in the Central Coast.
41 The two councils operate as separate water supply
42 authorities under the Water Management Act 2000. We have
43 an agreement for the provision, administration and
44 management of the headworks components of the Central
45 Coast water supply, so we have an agreement on how we
46 operate between the two organisations.
47

1 The joint water supply includes major headworks item
2 such as storages, treatment facilities and transfer
3 systems. The administration of this arrangement is through
4 the Gosford Wyong Water Authority as a board to manage that
5 process.

6
7 Since the early 1990s, the Central Coast has been
8 experiencing some extreme drought conditions with
9 significant reduced rainfall and stream flows when compared
10 with the historical figures. This graph here shows the
11 long-term water supply stream flows. It is that dark blue
12 line. You can see since 1990 through to about 2007, the
13 stream flows that we have experienced over those years and
14 they have been about half of the long-term average. That
15 has had a significant impact on the supply to the Central
16 Coast.

17
18 We have a graph here showing the decline in our storage
19 system due to those low stream flows. Since about 1990
20 or 1991, the impacts of the below average stream flows have
21 had a significant impact. You can see that up to about early
22 2007 we got down to about 12 per cent of total capacity.
23 We had a reasonable rainfall event during the June long
24 weekend in 2007 which helped increase our capacity and the
25 capacity has been rising very slowly ever since, but we are
26 nowhere out of the woods yet. We are still at 30 per cent.

27
28 During the period where the water supply levels were
29 reducing, the councils implemented a multifaceted approach
30 to the management of the water supply to secure it to the
31 Central Coast. These measures included the introduction of
32 mandatory water restrictions, and they came in in 2002.
33 There were a range of demand management initiatives,
34 including reuse schemes and rebate programs. There was
35 extensive community education and drought contingency
36 measures where we augmented the supply in a range of areas.
37 Some of those are permanent and fit into our long-term
38 strategy. A number of them were temporary. As the water
39 flow improved, we have since decommissioned them, as a
40 requirement of the State Government. We have developed
41 what is known as the integrated water cycle management
42 strategy and WaterPlan 2050 for our long-term development
43 needs.

44
45 In terms of the mandatory water usage restrictions,
46 you can see that level 1 went on in February 2002. We are
47 currently on level 3. On the far right-hand side of that

1 table, you will see the actual demand reductions that we
2 achieved throughout each of the restriction levels, and
3 just to the left of that was the target.

4
5 By and large we were actually able to achieve slightly
6 greater demand reductions than we were targeting, with the
7 exception of the level 2 where demand actually went up.
8 That was from a combination of the early introduction of
9 the restrictions as well as an extremely dry period.

10
11 The demand management activities that the councils
12 undertook included rebates for the installation of
13 rainwater tanks, water-efficient washing machines, grey
14 water treatment systems. There was a program for the
15 provision of subsidised REFIT kits to improve the water
16 efficiency in existing homes. There has been an active
17 leak detection and pressure reduction program throughout
18 the system to try to reduce system leakage, and there were
19 non-residential water management plans produced for all
20 users who use more than 3.5 megalitres a year with the
21 objective of reducing consumption by 24 per cent. We also
22 trialled smart water meters.

23
24 The programs that were undertaken throughout the drought
25 included an extensive community education program.
26 That was not only to assist in the community understanding
27 where the councils were heading in terms of their programs
28 but also to assist the members of the community in being as
29 efficient as they possibly could.

30
31 Through that education program and other drought
32 contingencies, we were able to achieve a total reduction in
33 demand from a maximum of 115 megalitres per day down to
34 an average of about 64, so it was quite successful.

35
36 With regard to the drought contingency measures, the
37 things that we have actually constructed in conjunction
38 with Hunter Water, we have developed a major link between
39 the two systems. That is known as the water transfer
40 system. It allows water to flow from the Hunter into the
41 Central Coast but also the back from the Central Coast into
42 the Hunter. It has also been integrated into our long-term
43 strategic system. There has been essentially the
44 equivalent of transfers between the Hunter and ourselves
45 over the last year.

46
47 We developed a range of groundwater systems. We also

1 introduced some temporary works, there has been a reduction
2 of environmental flows on Ourimbah Creek bypass, and a
3 temporary weir on Porters Creek, which allowed to us
4 transfer water from a coastal catchment which was receiving
5 rainfall into the Mardi Dam. We temporarily raised the
6 Mangrove Creek Weir to harvest more from Mangrove Creek.
7 We also provided a link between Lower Mangrove and Mooney
8 Dam to enable us to harvest a bit more water into Mooney,
9 and that forms part of our overall strategy from here on
10 through.

11
12 The IWCW strategy is a best practice approach for
13 water utilities. It looks at integrating wastewater and
14 stormwater services to obtain an optimal use of water
15 resources. It is a requirement of DEUS, or DWE as it is now
16 called, in its best management guideline process that was
17 outlined in the water supply and sewerage guidelines of
18 2007. The councils have implemented a DCP to encourage
19 development consistent with the IWCW principles.

20
21 In terms of our long-term strategic planning, we
22 developed what was known as WaterPlan 2050. The
23 objectives of that plan are the long-term strategic supply for
24 the next 45 years. But it does not stop at the 45 years; it is
25 set up so that it can be built upon well into the future.

26
27 The plan has been set up to balance the supply and
28 demand or to ensure that we always have a supply ahead of
29 our demand so that we do not find ourselves in the
30 situation we have been in the last few years. It is to
31 provide sustainability, affordability and adaptability -
32 adaptability is an increasingly important issue in these
33 times of uncertainty with climate change - to build on the
34 existing drought management activities, in particular the
35 Hunter link, and to assist with drought recovery, and it
36 had a fairly rigorous community consultation process
37 throughout its development.

38
39 Effectively the WaterPlan 2050 is built up over a
40 number blocks. We have an existing system. We looked at
41 the need to work on both the demand side and the supply
42 side. We looked at trying to solve the problem purely from
43 a demand process and that was not achievable, so the system
44 has to be augmented. We built in a range of things from
45 the drought management activities, such as the Hunter
46 groundwater and the link between Lower Mangrove and
47 Mooney. We developed a range of supplementary supplies.

1
2 A number of standard enhancements are currently
3 underway - things like the Mardi pump station that will
4 increase yield - and we are also looking at the Mardi to
5 Mangrove pipeline project to enhance the existing system.
6 The original water supply on the Central Coast was actually
7 designed with the intent of taking water from the Wyong
8 River and putting it into Mangrove Creek Dam. It has just
9 never been implemented.

10
11 Turning to the system enhancements that are going on
12 at the moment, the major one is the Mardi to Mangrove
13 transfer system. It involves about a 21-kilometre pipeline
14 between Mardi Dam and the tunnel for the Mangrove Creek
15 Dam in the Upper Wyong, a pump station to enable transfers
16 between the Mardi Dam and Mangrove Creek Dam and an
17 upgrade of the transfer system from Lower Wyong into Mardi
18 Dam. That involves a small pipeline, a bit over 2.5 kilometres,
19 with a new pump station. There is the potential to put
20 spillway gates on Mangrove Creek Dam if required in the
21 future and that will significantly increase the yield.
22 There is a range of other works known as the Mardi suite of
23 works which provide many benefits including benefits to the
24 distribution network.

25
26 Efficient use of water: there is currently a series of
27 financial rebates that the council provides for encouraging
28 the uptake of rainwater tanks. We previously had one for
29 washing machines; however with the introduction of the
30 state program, the council has since scrapped that program.
31 There is a range of mandatory water efficiency requirements
32 for new developments, essentially the BASIX program. There
33 are water management plans for large non-residential users.
34 There is a leak detection program and a pressure reduction
35 program. There will be continued community education and
36 involvement and we are looking at cost effective stormwater
37 harvesting projects for non-potable use where effective and
38 cost effective, and in the future also cost effective
39 recycled water projects are timed for when they are
40 required.

41
42 We wanted to take an adaptable approach to further
43 supply enhancements given the uncertainties of climate
44 change and population. We do not want to lock ourselves
45 into a path that we cannot deviate from in the future if
46 there is a sensible reason to do so and we are evaluating
47 the cost effectiveness and viability of those. We will

1 continue to review both the supply requirements and demands
2 and sensible addition to the system when and where
3 required.

4
5 The main things that we consider as having the
6 greatest opportunity are: Tillegra Dam, a permanent
7 desalination plant or recycled water. I must stress that
8 these are considered as being well into the future. Thank
9 you, I will finish there.

10
11 MR WARNER: Thank you very much. We have a few questions
12 to put to you. The tribunal understands that you cooperate
13 in the supply of bulk water to the two local councils.

14 However, we notice in your respective submissions that
15 there are significant differences in the estimates of the
16 value of water to be purchased from Hunter Water
17 Corporation over the period of the new determination, and
18 there is an order of magnitude difference, I think a bit
19 over \$1m for Wyong and over \$6m for Gosford.

20
21 Can you please explain those differences and how the
22 estimates were arrived at? Is there an established
23 criteria for purchases based on supply levels or storage
24 levels and is there an agreed quantity?

25
26 MR CASEMENT: I will answer the first part of the
27 question. When we did these estimates for the predicted
28 transfers from the Hunter system, we considered a range of
29 variables and we have a process for considering a range of
30 variables for determining when the transfers would occur.
31 These involved the storage levels in the coastal dams, the
32 Mangrove Creek Dam storage level, the available supply from
33 the Hunter, predicted demands and a range of other minor
34 issues.

35
36 We ran that through our joint model, which allows us to run
37 the model for the Hunter and the Central Coast, on how
38 the two systems behave, and from that we estimated what
39 is the potential transfer rate over the price path. That
40 was included in the Wyong submission. I understand that
41 Gosford put in a separate set of numbers.

42
43 MR WILLIAMS: Just to make it clear, Gosford actually
44 reduced the amount of water that it would take from the
45 Hunter based on a look at the risk profile in terms of
46 where we sit at the present time. Obviously when we look
47 at the weather and the run-off, it is a matter of assessing

1 the risk. There was a consideration that taking water from
2 the Hunter would add another \$2m a year to the cost to
3 Gosford for its water supply.

4
5 Initially the intention was, the way we operate the
6 system is that we take it from our coastal dams. At the
7 present time our coastal dams are full, so it is a matter
8 of assessing the risk. But taking regard to the modelling
9 and when we would need to take water, we have actually
10 incorporated that risk in the return on capital in our
11 submission rather than having an additional \$2m that would
12 go to the bottom line in our prices.

13
14 MR WARNER: I am not sure that fully answers the question
15 but maybe we can explore that separately with you.

16
17 MS GARNIER: In the respective submissions the proposed
18 joint water supply projects are not the same. For example,
19 Gosford has included the proposed water factory at Gosford
20 and the Woy Woy water recycling plant as joint water supply
21 projects. Can you explain the process for determining what
22 is and what is not a joint water supply project and can you
23 shed some light of whether those two projects are joint
24 water supply projects?

25
26 MR CASEMENT: We do have a process by which we
27 consider joint water projects. We have an advisory group
28 called the technical advisory group which provides
29 our board and the board passes recommendations on to the
30 recommendations to councils.

31
32 In making those technical decisions we have a range of
33 considerations and attributes that we look through in terms
34 of the supply level required at a particular point in time,
35 the demands at that point of time and the cost
36 effectiveness. At this point of time there are a range of
37 items that are included in the Gosford submission that are
38 not included in the Wyong submission. That is
39 predominantly because they have not been at this stage
40 agreed as joint works.

41
42 MR WILLIAMS: They are only in the preliminary conceptual
43 stage. The TAG has put together a series of guidelines for
44 acceptance of joint water projects, what would be
45 acceptable. Water recycling is included in those
46 guidelines, and these projects would go through the normal
47 process of being evaluated by the TAG before they go to the

1 board, but they are not in that situation at the moment
2 where we have put them together in a significantly robust
3 manner to allow them to go to the TAG.

4
5 THE CHAIRMAN: Can I just come in on this: at the end of
6 the day we have to either decide whether to include them
7 and they go into the cost base, which then gets reflected
8 in prices or not, but from what has been said to me these
9 don't sound like they are sufficiently robust to get
10 included. I would be interested if you have an
11 observation. Or when you think they would be sufficiently
12 robust to be included and can that occur within the
13 timeframe that we need?

14
15 MR WILLIAMS: The answer is, obviously they should not be
16 included in the price base. We are asked to produce our
17 forward estimates for the next four years. These are
18 capital projects and would not have sufficient impact on
19 prices at this particular time as I would see them.

20
21 MR WARNER: That obviates the other question I had about
22 cost sharing and whether Wyong people should really pay for
23 half of that. Anyway. IPART understands that the Joint
24 Water Supply Authority believes that the expected reliable
25 yield from the system is of the order of 40 gigalitres per
26 annum. With the Hunter link we understand that rises to 47
27 gigalitres per annum if the Mardi to Mangrove link is also
28 put in place.

29
30 Further, we understand that the current total
31 unrestricted water consumption in both the Gosford and
32 Wyong areas is estimated to be of the order of 32
33 gigalitres per annum. Does the Joint Water Supply
34 Authority consider that there is any justification for any
35 additional augmentation in the foreseeable future given
36 that you have got the Hunter link and if the Mardi to
37 Mangrove link is also approved?

38
39 MR CASEMENT: In terms of additional yield beyond a 47
40 gigalitre yield, at this point in time unless climate
41 change was significantly different to what we calculated it
42 would appear at this point of time that there would not be
43 a requirement to add additional yield. However, we need to
44 keep a constant eye on climate change impacts and the
45 balance between supply and demand. So we need to continue
46 looking at that. But in the next couple of years I
47 wouldn't think so.

1
2 MR WARNER: How long do you think your existing yield of
3 47 gigalitres will actually last you?

4
5 MR CASEMENT: We believe to 2050.

6
7 MR WARNER: A long time into the future, okay.

8
9 MR CASEMENT: But that requires the Mardi to Mangrove
10 link to be in place.

11
12 MS GARNIER: The next question is actually based around
13 that. Given that the New South Wales Government has
14 announced an intention to construct Tillegra Dam and the
15 completion of the Hunter to Central Coast pipeline, has the
16 Joint Water Supply Authority considered deferring
17 construction of the Mardi to Mangrove link and purchasing
18 water from Hunter instead? If you have considered it, can
19 you advise what progress has been made in negotiations?

20
21 MR CASEMENT: Central Coast and Hunter are continuing
22 to discuss the issue of Tillegra Dam with the Hunter. At this
23 stage there has been no decision to make any contributions.
24 One of the things that we need to carefully consider is how
25 the transfer system operates and if you treat the transfer
26 system as a regional resource, there is the potential to
27 impact on the timing of works both in the Hunter and in the
28 Central Coast.

29
30 MR WILLIAMS: I would like to add to that. The Mangrove
31 Creek Dam, as Garry pointed out in his presentation, was
32 constructed on the basis of being able to extract water
33 from the Wyong River. The Mardi to Mangrove link is an
34 essential element in the completion of that original plan
35 for the Central Coast water supply. In terms of the longer
36 term water supply to the Central Coast, even with Tillegra
37 Dam on line, it would make sense to complete the existing
38 project to allow that system to operate to its fullest
39 potential.

40
41 MR WARNER: There is an existing agreement, we understand,
42 between Hunter Water and Central Coast covering the
43 purchase of water between both of you. We understand that
44 that agreement calls for IPART to set the price for water
45 paid under the agreement as from 1 July 2009 or
46 thereabouts. Hunter Water has proposed a methodology in
47 its submission to IPART that would see the usage price for

1 water set at their tier one usage price, whatever that is
2 determined by IPART, less 33 per cent, so you end up paying
3 two thirds of their tier one standard price.

4
5 Do you have a view on that? Do you agree with the
6 methodology or do you have a different view as to what is a
7 fair price to pay for water transferred from Hunter to
8 yourselves or do you have an alternate methodology that we
9 might consider about how to calculate a price?

10
11 MR CASEMENT: The way that the price has been developed
12 we believe that there is some scope to modify that. Given the
13 nature of the transfer system and how it operates and the
14 impact on the Hunter infrastructure we would consider that
15 a marginal plus basis would be a more appropriate approach.

16
17 MR WARNER: When you say plus, what do you mean by plus?

18
19 MR CASEMENT: A margin for rate of return on investment
20 for the Hunter.

21
22 MR WARNER: We might have to explore that.

23
24 MR CASEMENT: I think outside would be better.

25
26 MR WILLIAMS: Can I also add to that, obviously when we
27 consider taking water from the Hunter, it is not only the
28 situation with regards balancing the risk in terms of our
29 own water supply and the levels that our own coastal water
30 supply has but also a matter of cost and that was the issue
31 that our council took into account as to how much water
32 they might take in the future because there was a price
33 consideration and the impact on customers.

34
35 Obviously from our point of view at the moment the
36 price that has been reflected in the Hunter submission also
37 includes a component for capital cost and if there is a
38 consideration that we should be contributing to the
39 Tillegra Dam we would only like to see the marginal
40 operating costs that would be reflected in the cost of the
41 transfer from the Hunter.

42
43 All those sorts of issues are of consideration in
44 terms of how much water we would take and obviously the
45 lower the price was in terms of the water coming down the
46 pipeline, the more attractive it would be for us to take
47 water from the Hunter.

1
2 THE CHAIRMAN: You have answered my question, thank you.

3
4 MS GARNIER: Further to Richard's previous question, what
5 justification does the Joint Water Supply Authority see for
6 rainwater tank or washing machine rebates given that the
7 immediate water crisis has now past?

8
9 MR CASEMENT: Washing machine rebates - the council no
10 longer lower provides those, they dropped out on 1 October.
11 In terms of rainwater tanks, I will pass that.

12
13 MR WILLIAMS: There is a recommendation going to the
14 next board meeting that we actually drop the rebate on
15 rainwater tanks. There is a concern I guess in our own
16 council that we continue to press demand management from
17 the customer's point of view on water conservation and our
18 council I guess is particularly concerned that the community
19 here, which has already met a 32 per cent target in terms of
20 water reduction, maintains a water conservation program into
21 the future.

22
23 What they have asked for is that we actually go
24 forward with providing an additional rebate for internal
25 connections but dropping the rebate for the external
26 rainwater tanks only.

27
28 We do recognise that that program has been introduced
29 by the state statewide and as a result of that that is the
30 proposal. But I should point out that that has not gone to
31 the board, it is just a recommendation from the TAG, and
32 that will then have to go to the two councils for sign-off.

33
34 MR WARNER: One last question from us: the tribunal's
35 consultants have questioned the ability of the Joint Water
36 Supply Authority to have the Mardi to Mangrove link
37 operating by late 2010. Are you confident that you can
38 still meet that timetable?

39
40 MR CASEMENT: We have got a construction completion
41 schedule of December 2010, with commissioning in March
42 2011, and we are comfortable that we can achieve that. It
43 is tight but we believe that we can actually achieve it.

44
45 MR WARNER: What comfort can we take from that, given
46 that there have been experiences in the past where you have
47 both struggled to deliver capital works programs in a timely

1 manner?
2
3 MR GRANTHAM: For the program we have on-board
4 managing the Mardi to Mangrove link GH&D, one of the
5 largest consultants in Australia, and they are the project
6 managers, the ones who developed this program, and there is
7 a team from GH&D who are targeting achieving that program.
8

9 MR COX: Thank you. Garry Casement said that the Hunter
10 to Central Coast link was a regional resource and I think
11 that is a important point. Because that exists, it seems
12 to me that investments such as Tillegra Dam are necessarily
13 of benefit to the Central Coast as well as the Hunter; and
14 equally I think can you argue that investments such as the
15 Mardi to Mangrove pipeline benefit the Hunter as well as
16 Central Coast. How do you think we can value these
17 benefits or these investments and what relevance might they
18 have to our pricing decision?
19

20 MR GRANTHAM: If I can answer that, if water is viewed as
21 a regional resource then that results in one cost of
22 transfer rate, and if that transfer rate reflects the true
23 cost benefits to the various parties then you get the
24 optimal use of that resource. If alternatively a different
25 pricing structure is arrived at then each party will make
26 their decisions based on those prices, as Mr Williams
27 indicated earlier.
28

29 Right at present the Tillegra Dam is located in the
30 Hunter area and the cost arrangements between the Central
31 Coast and Hunter are a financial arrangement, not a
32 regional resource arrangement, and that is the basis on
33 which the councils entered into that arrangement with the
34 Hunter. I am just making a statement of fact, not a
35 statement of whether it is right or wrong. All I am saying
36 is that as a statement of fact it is a financial
37 arrangement between the Central Coast and the Hunter.
38

39 That means that that resource is not being shared as a
40 regional resource or the maximum benefit is not being
41 achieved out of that resource because the Central Coast
42 will make its decisions based on the financial cost of that
43 source versus its other sources. And the current cost of
44 that source from the Hunter includes a profit to the
45 Hunter, so it is not shared as a regional resource, it is
46 basically a financial arrangement between the Hunter and
47 the Central Coast.

1
2 There is difficulty in sitting down and saying, well,
3 we want to discuss this item as a regional resource and
4 maximise the benefit. The pricing arrangements don't
5 reflect that.
6
7 MR COX: That is something we might take an interest in
8 perhaps.
9
10 MR GRANTHAM: I think it is something that IPART could
11 take an interest in.
12
13 MR CASEMENT: The other issue to be aware of is how the
14 two systems interact with each other and the timing by
15 which each piece of infrastructure is actually acquired.
16 Because there is a major set of sources down on the Central
17 Coast, it is not appropriate to see a link to the Hunter,
18 like the Central Coast, being another customer, because the
19 way the water is taken is not on a costed basis, it is on
20 an intermittent and irregular basis, so the systems
21 actually do bounce off each other, they interact in a
22 particular way.
23
24 MR COX: Thank you.
25

26 WYONG SHIRE COUNCIL
27

28 THE CHAIRMAN: We will move to Wyong Shire Council to
29 present now, if you would introduce yourselves.
30

31 MR CLARKE: Good morning, my name is Ian Clarke, I am
32 Wyong Council's acting manager, water and waste. I will be
33 making a short presentation on Wyong's key issues in
34 relation to our submission to the current IPART review.
35

36 The issues I will be covering today will be the
37 continuing drought impacts on operating and capital
38 expenditure programs; this pricing proposal; customer
39 impacts of the proposed pricing; impacts on revenue from
40 water sales; the introduction of a drainage service charge
41 and liquid trade waste issues.
42

43 The drought impacts on expenditure during our drought
44 recovery face: the operating expenditure, there will be an
45 ongoing average expenditure of approximately \$2m per
46 annum over the period 08/09 to 12/13 to cover the purchase
47 of water from Hunter Water.

1
2 Groundwater harvesting and effluent reuse schemes:
3 This is to allow system storage recovery from the drought.
4
5 Capital expenditure: there will be an expenditure of
6 approximately \$98m from 08/09 to 12/13 on council's capital
7 works program to finalise drought contingency works and
8 complete systems security works such as the Mardi to
9 Mangrove transfer system, the Mardi dam transfer system and
10 the Mardi high lift pump station.
11
12 The pricing proposal: The water usage charge, we are
13 looking at a proposed annual increase of CPI plus a
14 maximum of 3.5 per cent per annum over the time of the
15 submission. That ranges between 2.5 per cent, going up to 3.35
16 per cent. Water service charges, we are looking at CPI.
17 Sewerage usage charges, CPI. And trade waste,
18 miscellaneous charges and the drainage service charge, we
19 are looking at CPI, except from one exception within trade
20 waste.
21
22 It should be noted that the water service charge and
23 the sewerage service charge will be offset by reductions to
24 give a cost neutral result with the introduction of the
25 drainage service charge.
26
27 Customer impact of the proposed residential charges.
28 We are looking at the top table there, which shows the bill
29 for a residential property using 140 kilolitres per annum,
30 which is the current predicted average consumption, and
31 looking across are the 08/09 current charges, then we are
32 looking at the 09/10 proposed across to 12/13, and you will
33 notice that those two charges are reduced by an amount that
34 offsets the drainage service charge, so it is actually
35 revenue neutral.
36
37 The overall increase - these figures are in today's
38 dollars, with no allowance for CPI - you will see across
39 the bottom there the percentage increases each year
40 relative to the charge before.
41
42 For the figures for the 140 kilolitre per annum, over
43 the period we are looking at a \$32 dollar increase total,
44 or \$8 per annum, which represents about 15 cents per week.
45 The bottom table shows the 170 kilolitres per annum, with
46 no restrictions, which is the estimated consumption
47 average, and the figures at the bottom basically reflect

1 the same as the table above.
2
3 Looking at the overall customer impact for the
4 changes, we are looking here at the average residential
5 usage from 01/02 in this column here up to 12/13, where you
6 can see the fall in the residential usage. The total
7 accounts figure is the next column, with the percentage
8 change from year to year, and an overall cumulative change
9 since 01/02.
10
11 The impact of the drought on water sales:
12 historically with the worsening of the drought after 2006,
13 the IPART price determination saw a continuing
14 deterioration in water sales relative to IPART estimates,
15 which has adversely impacted councils' financial position.
16
17 We see there the basis for the IPART price
18 determination on the expected consumption against the
19 actual sales by council, with a shortfall there of about
20 7,000 megalitres, which represents an overall lost revenue
21 of about \$8m in today's dollars.
22
23 Despite the easing of the drought conditions, council
24 still forecasts reduced sales relative to non drought
25 unrestricted conditions until 2011 and 2012 with a
26 projected return to unrestricted usage in 2012 and 2013.
27 You will see here the forecast sales and the estimated
28 unrestricted sales on the right.
29
30 These figures were audited by Sinclair Knight and
31 allow for the impact of restrictions.
32
33 The drainage service charge: the current situation is
34 that drainage capital renewals and operational costs are
35 funded through water and sewerage income and there is no
36 separate drainage charge. It is proposed in this
37 submission that as a result of IPART indicating in 2006
38 determination an expectation of setting a separate drainage
39 service charge was to be expected at this price review,
40 creation of a separate identifiable charge to fund drainage
41 capital renewals and operational costs, which means a new
42 separate drainage service charge being introduced.
43
44 The drainage service charge is based on the methodology
45 used for calculating stormwater levies which is used to
46 fund specific water quality works. The stormwater levy
47 is the State Government approved funding mechanism for

1 local government and the charging methodology was developed
2 by the State Government for use by local government.

3
4 The methodology applied by the drainage service charge
5 is based on residential properties paying a flat rate of
6 \$80 per property in 09/10, higher density properties paying
7 a portion of the residential charge, non-residential
8 properties paying a multiple of residential charges based
9 on area, rural properties are not charged, and vacant
10 properties are not charged.

11
12 The drainage service charge will apply to a defined
13 service area, which basically is typically east of the F3.

14
15 The proposal allows for an efficient implementation of
16 the DSC, as administration systems are currently in place
17 for the stormwater levy.

18
19 Liquid trade waste issues: council's liquid trade
20 waste policy complies with the State Government's best
21 practice management guideline, it is based on pay for use
22 and full cost recovery. The policy regulates discharge of
23 commercial and industrial waste to council's sewerage
24 systems and there are two issues highlighted for this
25 review. One is the incorporation of septic tank and pan
26 waste into council's liquid trade waste policy and the
27 other one is increases in category two compliant trade
28 waste usage charges in excess of CPI.

29
30 Inclusion of septic tank pan waste: The definition of
31 septic tank waste and pan waste is provided in the top two
32 lines. There was a State Government 2007 directive to
33 local government to incorporate acceptance of septic tank
34 and pan waste into liquid trade waste policies. It is
35 currently administered under council's waste functions as a
36 local government authority and from 09/10 it is proposed to
37 be brought under council's liquid trade waste policy.

38
39 The proposed charges for 09/10 are now included under
40 trade waste in council's submission to IPART and it is a
41 minor component of our trade waste business.

42
43 Liquid trade waste, the phasing of category two trade
44 waste usage charges: The charge for acceptance of
45 pretreated trade waste from category two compliant
46 discharges. Typical category two compliant discharges such
47 as restaurants, like McDonald's, takeaways, service

1 stations, all with grease arrestors, council's cost
2 recovery is achieved by about \$1.30 per kilolitre based on
3 State Government best practice guidelines. The 08/09
4 current charge is 31 cents per kilolitre and to minimise
5 customer price impacts, customer has previously phased in
6 increments of 10 cents per kilolitre increases above CPI
7 over the current pricing path.

8
9 Council proposals to continue this methodology over
10 the next price path and future price paths until full cost
11 recovery is achieved. A typical customer impact is
12 approximately \$50 per annum over CPI.

13
14 That is the end of the presentation, thank you.

15
16 THE CHAIRMAN: Thanks very much for that.

17
18 MR WARNER: A number of stakeholders have commented
19 on the large number of low income households in the Wyong
20 Shire. Your submission quantifies the increase in average
21 residential bills as being greater than CPI. Why do you
22 think such increases are necessary and do you think they
23 are affordable to local residents?

24
25 MS TRIVERS: The affordability of the rate increase, the
26 price increase, is obviously aimed to keep it as affordable
27 as possible whilst achieving a sustainable pricing path
28 financially, so in endeavouring to set the costs we have
29 endeavoured to keep it as low as possible. Obviously the
30 financial impacts on the community can only be quantified
31 as being above the CPI and we believe that that should not
32 necessarily have an adverse impact given the small quantum
33 of it above the CPI in terms of the actual dollar bill to
34 the consumer.

35
36 MS GARNIER: Leading on from that, a number of submissions
37 have criticised your submission for not advancing measures
38 to help your residents who suffer hardship issues. Some of
39 the options proposed were no interest loans to help people
40 buy more efficient appliances. Could you outline any
41 measures you have in place, or new measures that you are
42 proposing, to assist customers with financial hardship; and
43 also what is your opinion on some of the other options that
44 have been proposed, for example, the no interest loans?

45
46 MS TRIVERS: In terms of our current position, we have the
47 pensioner rebate scheme, which is a 50 per cent of both

1 water and sewer charges, capped at \$87.50 each, so a total
2 \$175 concession, of which council actually foots the bill
3 for 45 per cent and the State Government pays the 55 per
4 cent. In 2007/08 that was \$2.4m in total and council's
5 share was \$1.1m, so those households that are pensioners
6 have a subsidy already in place.
7

8 In relation to financial hardship matters,
9 applications can be made to council and donations granted
10 under section 356. Basically it is very difficult for
11 council to discern the full financial position of
12 individual families. Obviously it would be a very onerous
13 mechanism for councils to consider having anything in place
14 to manage such applications and there are other agencies
15 who are a better equipped to handle those sorts of
16 situations.
17

18 MR WARNER: I have a question about your future water
19 supply needs. I notice your WaterPlan 2050 mentions that
20 Gosford and Wyong councils would investigate the costs and
21 benefits for the Central Coast of accessing water from the
22 Tillegra Dam. What I want to know is how those studies are
23 developing - that is, your cost benefit type of studies?
24 Do you have plans to access further water from the Hunter
25 region and if Tillegra improves drought security in the
26 Central Coast, do you think the Central Coast should share
27 in the cost of that?
28

29 MR GRANTHAM: I think this follows on from the earlier
30 comments that were made in relation to Tillegra. WaterPlan
31 2050 outlines a range of costs for securing water from
32 various sources. One of those sources is the Hunter.
33 Based on those relative costs and benefits, the councils
34 make decisions in relation to where water will be sourced.
35 Wyong's plans in terms of securing water from the Hunter,
36 based on current planning, are consistent with what is in
37 WaterPlan 2050 and in accordance with the headworks
38 methodology, as Garry Casement indicated, for water supply
39 to the Central Coast.
40

41 Gosford and Wyong councils, in terms of what the
42 councils are prepared to contribute, will bear reasonable
43 costs where those costs are seen as beneficial. In other
44 words, where the investment in Tillegra is seen as
45 beneficial to the Central Coast, then the councils will
46 make that investment. However, if investment in Tillegra
47 is not beneficial to the Central Coast, in other words, if

1 the investment in a water source different from Tillegra is
2 more beneficial to the Central Coast because of factors
3 such as the price from Tillegra or the timing or
4 availability of water from Tillegra, then it is in the
5 interests of Central Coast residents for the councils to
6 make those decisions.
7

8 MS GARNIER: Moving back to your submission, in the
9 submission you did not specifically mention a rate of
10 return that you considered appropriate for your assets.
11 You proposed prices that cover the costs of operating the
12 system - water, sewerage, stormwater - and the New South
13 Wales Government requirement to recover the amount of tax
14 equivalents.
15

16 Firstly, can you just confirm that that understanding
17 is correct and do you think it is appropriate that water
18 agencies should earn a rate of return on their assets and
19 what is an appropriate rate of return for Wyong Council to
20 recover?
21

22 MS TRIVERS: The council's past and current business model
23 has been that the pricing methodology for its water and
24 sewer business activities would be based on the lower cost
25 and setting it at that sustainable price - so back to that
26 previous question of providing water at an affordable level
27 to your community. Council, in the current economic
28 climate, and based on the current demographics of the lower
29 income component in our shire has not at this stage fully
30 investigated what, if any, an appropriate rate of return on
31 water and sewer businesses would be.
32

33 It is very complex because it feeds back into the
34 pricing and flows straight back to the doorsteps of
35 residents. That is not something that we have a firm
36 opinion on. In the future, we would have to look at the
37 practice of other water authorities or what industry
38 practice was in terms of those rates of return.
39

40 Do you have anything to add, Ken?
41

42 MR GRANTHAM: No.
43

44 MR COX: You mentioned earlier, I think, that the pricing
45 needs to be financially sustainable for Wyong Council.
46 Perhaps you can explain in more detail what you mean by
47 that and how you assess financial sustainability.

1
2 MS TRIVERS: In developing the pricing methodology, we use
3 the 30-year plan which encompasses also the aspects of the
4 WaterPlan 2050 that are relevant. We have significant
5 long-term planning and capital and maintenance renewal
6 programs in place for our asset management system. Taking
7 all of those things into account, we then determine what
8 levels of revenue are required to keep the price manageable
9 and in order to keep our business going. That takes into
10 account the long-term financing strategy associated with
11 that and what levels of borrowings might be required in the
12 future.

13
14 MR COX: So it pays for borrowings and it pays for tax
15 equivalent payments perhaps or --

16
17 MS TRIVERS: It takes into account the tax equivalent
18 payments in the course of the price setting, yes.

19
20 MR COX: But no explicit rate of return element?

21
22 MR JOHNSON: That model actually takes into account
23 things like Hunter transfers, assumptions on Hunter transfers
24 into the further.

25
26 THE CHAIRMAN: Perhaps I can come in on this also. You
27 referred to what other utilities do. When we price other
28 utilities, we always look - not just typically, but
29 always - for a return on and of capital. So we do make an
30 assessment of what is the weighted average cost of capital,
31 and that is the rate of return that we target. That is our
32 methodology, and that is probably the methodology we
33 would anticipate applying in this case. That is what we do. It
34 is what we have done in the past for Wyong. That may not
35 come out at the same answer as you proposed, and I would be
36 interested to hear if you have any comments on our
37 proceeding with our methodology, which is not only what we
38 use in pricing utilities but which is what other
39 regulators use in pricing utilities.

40
41 MR GRANTHAM: In the past, council has not been in the
42 position to pay itself a dividend under the Local
43 Government Act or regulations by DWE until it had in place
44 a strategic business plan. Council now has in place that
45 plan, so it is in a position where it could choose to pay
46 itself a dividend. Obviously in paying itself a dividend,
47 that would take into account the return on assets.

1
2 However, council, in determining not to pay itself a
3 dividend at the current time looked at the current
4 situation of residents in the Wyong Shire. As we indicated
5 earlier, the socioeconomic base in the Wyong Shire is not
6 strong. There are a lot of families facing hardship as a
7 result of the current economic climate and council has
8 resolved for this determination that it is not going to
9 recommend to the tribunal to pay itself a dividend.
10 Obviously if it did, then that dividend would reflect
11 through into a higher rate of return on its assets than it
12 is currently achieving. That does not mean that, in the
13 future, as circumstances change, the council may review
14 that decision and it may recommend that it is appropriate
15 for the business to be paying a dividend and seeking a
16 higher return on its assets. As I said earlier, because of
17 the current financial situation and the socioeconomic base
18 in the Wyong Shire, the council has resolved not to
19 recommend that way at the current time.

20
21 THE CHAIRMAN: We will certainly consider that. I should
22 perhaps just add as a comment that we do not see this so
23 much as a matter of paying a dividend but of ensuring good
24 resource allocation of investment funds. If the return on
25 one investment is targeted as being less than the return on
26 another investment, that can lead to misallocation of
27 scarce capital and that is probably the way we have seen it
28 as regulators.

29
30 I would like to return to another issue that has come
31 up. You have made it very plain that in considering your
32 water purchasing from the Hunter, you see it as a
33 commercial transaction where you compare the price of that
34 with what it would cost if you were to develop further
35 sources of your own, and I appreciate that point of view.

36
37 I guess there is an issue as to how far the Hunter or
38 the Tillegra, if you like, provides insurance; that is to
39 say, you may not buy any water over a few years because you
40 do not need to, but you have, if you like, the insurance
41 that it is available to you if it does not rain, for
42 example. Normally people have to pay for insurance even
43 though they do not use it. I have not been burgled for
44 some years, but I have been paying household insurance. I
45 wonder how you react to that proposition; that, by virtue
46 of the fact that you have access to this water, if and when
47 you need it, there should be some contribution as on the

1 insurance principle.
2
3 MR GRANTHAM: That part of the Central Coast has already
4 paid its insurance premium upfront. The link to the Hunter
5 costs in the order of \$38m, and the agreement that the
6 councils have in place with the Hunter through to 2026
7 provides that ongoing insurance policy through to that
8 time.

9
10 The issue that is facing Wyong Council and the Central
11 Coast in relation to Tillegra is that the Central Coast has
12 made significant investments in its own security. It has
13 made those investments taking into account the current
14 financial arrangements or the current financial structures
15 that exist between the Central Coast and Hunter. It does
16 not need Tillegra until beyond about 2030.

17
18 The current residents of Wyong Shire are paying a
19 significant burden as a result of the works already
20 undertaken. We should not be looking at further inflicting
21 at the current time a greater burden which is not warranted
22 on this generation. Certainly for the next generation,
23 there will be a requirement for additional water supply but
24 not for this generation. We therefore run into those
25 intergenerational equity issues which we face in terms of
26 any of these long-term works.

27
28 There is a range of issues on the table, and these are
29 the issues which the councils are trying to work through
30 with Hunter Water to see how best we can share this
31 resource.

32
33 MS KRIEGER: My only question, to follow that up, is: in
34 some other instances people have dealt with the
35 intergenerational issue by borrowing now on a long term so
36 as to spread the costs ultimately to those who will
37 benefit. Is that something that has had consideration on
38 the Tillegra Dam issue?

39
40 MS TRIVERS: That probably is the actual strategy that we
41 are using in terms of how we have adopted the Mardi to
42 Mangrove residual funding required by ourselves and the
43 way in which we are funding all those ancillary works. In
44 that manner, that is actually the methodology that we are
45 using as a financing strategy.

46
47 MR WARNER: I have another question, if that is all right.

1 I think you mentioned that trade waste charges will
2 increase in excess of CPI. Have you discussed those
3 increases with those likely to be affected by them and what
4 was their reaction to them?

5
6 MR JOHNSON: This is the category 2 charges. We
7 implemented that at the last determination. We have had no
8 complaints. We basically continue to implement that
9 policy.

10
11 MR GRANTHAM: The rates of increase in those charges are
12 very modest. In some areas, the \$1.30 per kilolitre charge
13 was implemented in a very short period. We are proposing
14 10 per cent per annum, which means over a decade of
15 implementing that charge. It is a long transition to
16 ensure that businesses are not adversely impacted.

17
18 MR JOHNSON: As I said, we have had no adverse
19 complaints or anything like that. I think the rate of increase is
20 fairly modest.

21
22 MR WARNER: I am aware that business conditions are
23 changing quite dramatically at this point in time, that is
24 all.

25
26 MR JOHNSON: In our presentation, we did say it was in the
27 order of about \$50 a year above CPI.

28
29 MR WARNER: That is for the typical customer.

30
31 MR JOHNSON: Yes.

32
33 MR WARNER: What is the spread? What is the maximum,
34 do you know?

35
36 MR JOHNSON: I couldn't really give you that.

37
38 THE CHAIRMAN: If there are no further questions, I think
39 we might take a morning tea break and we will recommence
40 in 15 minutes with Gosford.

41
42 SHORT ADJOURNMENT

43
44
45
46
47

1 GOSFORD CITY COUNCIL

2

3 THE CHAIRMAN: Mr Williams, it is over to you.

4

5 MR WILLIAMS: Thank you very much, members of the
6 tribunal, staff and ladies and gentlemen, I am here on
7 behalf of the general manager of Gosford City Council. My
8 position is director of water supply and sewerage for
9 Gosford City Council.

10

11 The last four years have been a very challenging
12 time for us managing what has been the worst drought on
13 record and, at the same time, implementing and looking
14 ahead to the future in terms of how we might manage risk
15 and prices and ensure a sustainable water supply for the
16 future.

17

18 To give you a bit of background on our council, we
19 have a population of 158,000, connected properties of
20 70,000, a revenue asset base of \$232m, a wastewater revenue
21 asset base of \$207m and a stormwater revenue asset base of
22 \$2m.

23

24 As you would all appreciate, Gosford City Council area
25 is a beautiful area surrounded by natural waterways,
26 beaches and bushland. It is an area that has a very high
27 tourist influx during the summer period.

28

29 As I indicated before, we have had the least rainfall
30 for 15 years, the worst drought on record. In two of those
31 years, we did in fact get rainfall that exceeded the normal
32 median rainfall. As a result we have had a decline in
33 storage levels which you saw in the presentation given by
34 Garry Casement for the Joint Water Supply Authority.

35

36 One of the issues that we have been confronted with
37 was the need to maintain a safe and reliable water supply
38 into the future and to continue the work we have done with
39 the community, and in the future, to reduce consumption to
40 ensure that we can preserve our water supply and ensure a
41 safety in supply for the future.

42

43 There has been a fundamental paradigm shift from
44 business as usual. Against this, we have had to balance
45 our priorities. We have maintained and run the system over
46 the last four years with the staff levels we had back in
47 2002. There has been no increase in staff, so obviously

1 there has been a shift in human resources and financial
2 resources to meet the priorities. Obviously, we have
3 attended to delivering and managing economically efficient
4 and environmentally sustainable systems.

5

6 This is a bit of a summary of what we have done with
7 regard to out 2006 to 2009 performance indicators. What we
8 have done is to provide short, medium and long-term actions
9 with a view to providing supply throughout the extreme
10 drought, recovering from the drought and ensuring supplies
11 for the future.

12

13 In the Joint Water Supply Authority presentation you
14 would have seen the list of the projects we have
15 implemented to the hard solutions, as I would say, and
16 \$100m has been invested in that. The soft solutions
17 involve the education and increasing the awareness in the
18 community. In fact the number of people attending here
19 today is indicative of the increased awareness of the
20 community of the essential need for water supply and
21 adequate wastewater services.

22

23 Over the last three years of the determination, we
24 have spent \$79m in capital expenditure and our water
25 operating cost is \$60m a year. Our wastewater operating
26 cost is \$55m a year and we have spent \$42m in capital.
27 Stormwater operating cost is \$12m and our capital
28 expenditure has been \$16m. You can see there has been
29 significant capital investment over the last three years in
30 our water supply, sewerage and drainage networks.

31

32 What has been the performance in terms of asset management?
33 We have spent \$5.2m on upgrading our sewerage
34 pump stations. This is to protect the Brisbane Water and
35 coastal lagoons. As people here are probably aware, we
36 have a \$10m oyster industry in Brisbane Water and there are
37 also the significant resources of our beaches that attract
38 the tourists.

39

40 We have implemented a \$3m program for water main
41 renewals. I need to say that we have had a number of water
42 main breaks, mainly because of high pressure, and our
43 performance at this level has not been that good, but we
44 need to implement increased expenditure in terms of water
45 main renewals so that we do not loose water through breaks
46 or impact on people's properties or their water supply
47 through that.

1
2 We are implementing a water asset management system, a
3 Hansen network, and we are investing \$1.2m so that we can
4 know the state of our assets and what assets need to be
5 renewed and when they need to be renewed.
6
7 We are also looking at the refurbishment of ageing
8 treatment facilities. Our sewage treatment facilities were
9 built more than 25 years ago and are in need of urgent
10 upgrade. We have been spending something of the order of
11 \$25m to improve those facilities to maintain our effluent
12 standards and our water supply quality to the community.
13
14 Some of the other projects that we have implemented
15 over the last three years are: the implementation of
16 fluoridation to protect dental health in the community.
17 Our Water Quality 2010 program has been rolled out over the
18 year and will continue during the coming year. There has
19 been a \$4.5m grant from the Federal Government to assist in
20 that program against a capital expenditure of \$9m. The
21 priority sewerage program is providing sewerage to the
22 communities of the Hawkesbury and Cheero Point. That is
23 costing Gosford City Council some \$14m. That again is to
24 protect the tourist and oyster industries within that area.
25
26 Odour management obviously is critical concern because
27 residents live close to major pump stations and also the
28 sewage treatment plants. We want to maintain a healthy and
29 aesthetic environment for the residents. There has been an
30 investment of something like \$600,000 in maintaining odour
31 management.
32
33 With regard to the water savings fund contribution,
34 \$3m from the community has gone into water saving fund
35 projects. There has been a several times order of
36 magnitude expense because of Federal Government
37 contributions to water saving initiatives in the community,
38 and Gosford City Council has also made a significant
39 contributions to a number of projects to assist schools,
40 local communities and also projects within the council.
41
42 What are the future challenges and objectives?
43 Obviously we aim to operate a commercially sustainable
44 business in which we are getting the appropriate rate of
45 return on our assets. We are also looking at minimising
46 the cost and impact on our residents. We aim to maintain
47 systems security so that we meet health standards,

1 environmental licence standards and water quality standards
2 both through our water treatment system and our sewerage
3 systems.
4

5 The potential impact of climate change: you would
6 have seen from joint water supply submission the impact
7 that reduced rainfall has had on our catchments in terms of
8 reducing the rainfall run-off by about 50 per cent. That
9 will have a significant impact on our water supply for the
10 future. When we look to the future in terms of looking at
11 our sustainable yield, we have made some assumptions in
12 terms of temperature increase and rainfall decreases to
13 accommodate that.
14

15 As I mentioned, we have ageing infrastructure. Some
16 of it dates back over 50 years. We have treatment plants
17 that are some 25 years old and we have to address renewal
18 and replacement of that ageing infrastructure.
19

20 The establishment of the Central Coast Water
21 Corporation has been in the news. In November 2006, the
22 State Government passed the Central Coast Water
23 Corporations Act which will allow the two councils to move
24 ahead to form a joint water supply corporation. The state
25 and the two councils are now looking forward to
26 implementing that legislation and establishing a
27 corporation that will provide better water services to the
28 Central Coast community.
29

30 We have put forward our proposal to IPART, but there
31 are a number of things that have not been included in that
32 budget. First is the impact of carbon pollution reduction
33 scheme. As a major emitter of CO2 emissions, we are
34 looking at quantifying what those emissions are and we are
35 looking at ways that we might reduce the amount of our
36 carbon footprint. That has not been included in our
37 submission partly because, at this particular time, we
38 cannot quantify it.
39

40 There is the issue of the return of extreme drought.
41 Our WaterPlan 2050 provides for options for the future in
42 terms of additional water supply and water conservation
43 measures, if the drought tends to worsen compared with what
44 it has been in the last 12 years.
45

46 There is the impact of the changing financial
47 environment in terms of investment of our loans and our

1 finances. There is the Central Coast Climate Change Fund.
2 That has been excluded, although the State Government
3 collects that money and it comes back to the residents of
4 the community and to the council, and there are potentially
5 further increases in regulatory requirements.
6
7 So what are our future plans? Obviously asset
8 management, as I indicated earlier, is an essential
9 keystone to the successful operation of a water and
10 sewerage and drainage authority, so at this point we want
11 to give a return focus on wastewater to ensure that we meet
12 effluent standards and that we don't overflow our system to
13 impact on the Brisbane Water or on the oyster industries.
14
15 The refurbishment of ageing facilities, we are looking
16 at spending something like \$25 on that. System upgrades
17 and replacement, about \$40m to minimise the environmental
18 risk. Inflow and infiltration management, \$1.1m. And
19 sewerage pump stations, \$14m.
20
21 Our future plans: to invest something like \$100m in
22 water security. Part of that is in the Mardi to Mangrove
23 pipeline but part of that is also in peripheral works of
24 some \$60m that will need to be undertaken to augment our
25 existing system to meet what was originally designed for
26 but also to maximise the yield and to minimise the cost of
27 water supply to the Central Coast.
28
29 There is our water quality 2010 program, as already
30 mentioned, which will cost about \$9m, and odour
31 management into the future of about \$1m.
32
33 So what are the price setting considerations that
34 Gosford took into account in setting the prices: we were
35 guided by the COAG and water initiative pricing principles
36 to get full cost recovery, to have a user pay system and a
37 rate of return on public investment that will be returned
38 to the community.
39
40 So how did we establish our revenue needs in giving
41 our submission to IPART. We were guided by the IPART
42 pricing principles, including on the building block
43 principles of operating costs, return of assets, which is
44 the depreciation of those assets, and a percentage return
45 on the assets that we have invested as part of our revenue
46 asset base.
47

1 The operational costs include the day-to-day efficient
2 operating costs for the system. The return of assets is
3 the recovery of the efficient cost of prudent investments
4 in the assets over the asset life, in other words
5 depreciation, and return on assets is that revenue to cover
6 the interest on debt, return on the equity of the owner's
7 investment and unforeseen systematic risk, and as you will
8 appreciate this is a slightly different approach to what
9 Wyong took in setting their prices, but it reflects the
10 IPART guidelines.
11
12 So the council revenue needs, looking at this over the
13 next four years, is to go from something like \$70m at
14 present to the next year of \$86m, \$90.3m and up to \$92.8m,
15 so that is the increase in the revenue needs over the
16 period if we follow those guidelines strictly.
17
18 How do we mitigate the impact of the revenue needs on
19 prices given that if we followed this formula it would have
20 that sort of impact on our prices. Well, we must first of
21 all recognise the upward pressure on the prices that we
22 have in terms of the works that we have done and also to
23 get the adequate return on investment that I have indicated
24 and the increased operating costs from implementing a
25 number of the initiatives that I have indicated before,
26 such as the fluoridation program and the groundwater
27 systems.
28
29 What we have done to mitigate those costs is to look
30 at recovering our revenue needs from the return on capital
31 over either years rather than four years, to reduce the
32 rate of return on our investments from 7.5 per cent to 6.4
33 per cent and to apply efficiency targets in excess of 1 per
34 cent to our operating cost. What this would mean is a
35 reduced increase in the average residential bill to 37 per
36 cent at the end of the pricing period.
37
38 We looked at a number of options also of how we might
39 implement those revenue needs. One was to have inclining
40 block tariffs, in other words, that we increase the amount
41 that we charge people based on the amount of water that
42 they use. However, we recognise there might be an inequity
43 here for large families in that they would end up paying a
44 much higher rate per kilolitre of water than perhaps
45 families with only one or two people.
46
47 We also looked at the issue of scarcity pricing. This

1 is complicated for customers to administer and I think
2 there is an education issue here and a communications issue
3 that we really need to have in place good water metering
4 where people actually know how much water they are using.
5 At present, given our water meters are only read every six
6 months, it is difficult to implement scarcity pricing and
7 have it adequate community driven, so we have not
8 recommended that proposal.

9
10 The preferred option is to continue with the two-part
11 tariff with a fixed connection charge and a variable cost
12 per kilolitre of water and have a postage stamp where every
13 person in the community paid the same price across the
14 whole of our council area. This is well understood as
15 being the historic practice of the council and is the
16 practice used by most water authorities throughout
17 Australia.

18
19 What is the average prices and the impacts: well, we
20 are looking into the future where the price of the amount
21 of water people consume increases, going from 157
22 kilolitres per property up to 199. And this is as we lift
23 restrictions and as we expect our water in our dams to
24 increase. So we expect with that lifting of restrictions
25 to go to 199, but you will still appreciate that 199
26 kilolitres per property is still well under the residential
27 average across Australia and reflects consumer
28 conservation.

29
30 The cost of water usage for that would go from \$263 to
31 \$389, an crease of 48 per cent. The fixed price, \$91 to
32 \$125, a 38 per cent increase. Wastewater, \$408 to \$529, a
33 29 per cent increase. And for the total water bill it
34 would be \$824 to 1,127, an increase of 47 per cent.

35
36 Just to put that into perspective, I know that is
37 rather alarming to see those statistics and potential price
38 increases, but going back to 1995, at current dollars our
39 price was at that particular time nearly \$1000 for the
40 residential home and that price will not reach that level
41 until 2012, so you can see that over the last 15 years
42 there has actually been a substantial decrease in the price
43 of water, sewerage and drainage services to the community
44 and that it will not rise to the level which it was at in
45 1995 until 2012.

46
47 The other question that is being asked by IPART is

1 what are the mitigating impacts on low income customers.
2 Historically in Gosford the demand for assistance from
3 residents experiencing financial stress has been low. In
4 the last three years we have only had ten customers
5 approach us to get some deferment, and that has mainly been
6 in terms of interest or interest waiving on outstanding
7 accounts.

8
9 We have looked at an arrangement of payment plans for
10 people under stress and we provide those when requested.

11
12 We have also implemented a program for all the
13 community housing within Gosford and Wyong councils to
14 refit their residences so that they use a low volume of
15 water. We have also supported suggestions for consistency
16 between agencies. However, we are bound by the Local
17 Government Act in terms of how we provide benefits to the
18 socially disadvantaged in our community and at present
19 under that act we can only provide rebates to pensioners,
20 as has already mentioned by Wyong.

21
22 Our council is very open to further discussion in
23 exploring other mitigation options in terms of reducing the
24 financial impact of rates and charges on the community.
25 However, this is a council service and historically council
26 services have always been charged at cost, giving people
27 the option of how much of the service they actually access.

28
29 Thank you.

30
31 MR WARNER: A few questions: your submission identifies
32 that some 56 per cent approximately of your forward water
33 capital expenditure program is attributable to growth.
34 However, from the information we have available it appears
35 that only about 5 per cent of that total is going to be
36 recouped from developers. The situation seems to be
37 similar for wastewater. I was wondering if you would like
38 to comment on that and explain the differences between how
39 much you are spending on growth versus what you are
40 recovering.

41
42 MR WILLIAMS: The initial answer to that question, I
43 guess, revolves around the fact that our growth is only
44 about 1 per cent a year in terms of population but there is
45 a necessary growth element in terms of addressing risk
46 within the supply and augmenting the system to meet for
47 future water supply needs. We have already got the

1 population in place so it is very difficult to get
2 developer contributions for increased growth in that area.

3
4 MS KNIGHT: I would just like to add that we have
5 allocated to the category growth other, not growth funded
6 by developer charges, and that was the definition of that
7 category, it is about increasing requirements of your
8 existing community, which is what was just alluded to. We
9 are conscious that won't be funded by developer charges.

10
11 MS GARNIER: Since your written submission IPART has,
12 obviously you are aware, but for everyone else, we have
13 been using consultants to help us identify your forecast
14 capital expenditure programs and they have identified a
15 number of instances where they don't agree with your
16 proposed projects and believe that significantly smaller
17 projects may be appropriate to achieve the same standards.

18
19 I am thinking in particular there with respect to the
20 Terrigal to Kincumber augmentation plant. Can you explain
21 to the tribunal why you have progressed this scheme given
22 the escalating costs, and in that answer maybe you could
23 outline the processes you employ in assessing the continued
24 prudence of an efficiency of schemes, given the escalating
25 cost estimates?

26
27 MR WILLIAMS: We have used our own consultants to
28 address that. What we have done is - I guess one of the
29 reasons we had this project in mind and why we felt a need to
30 continue with it is because of the age of the assets and the fact
31 we have been getting overflows within the Terrigal Lagoon
32 and Avoca Lagoon area and there are substantial ecological
33 areas there at risk, so there needs to be something done
34 with the system. The Terrigal to Kincumber augmentation
35 pipeline is really the most cost effective way of reducing
36 that risk.

37
38 Obviously there has been a continuing increase in cost
39 over the last five years and that is partly due to the
40 increase in construction costs that is happening within the
41 industry and the difficulty in terms of getting contractors
42 I guess to bid at prices we anticipated it could have been
43 done at four years ago.

44
45 As indicated, we have got our own set of consultants
46 assessing that and we are reviewing it at present. I do
47 not think there is any question about the need, but

1 certainly there is a question about whether there are other
2 options in terms of how we can get the same outcomes.

3
4 MS GARNIER: Could you explain in generic terms the
5 processes you use for your capital program?

6
7 MR WILLIAMS: In generic terms?

8
9 MS GARNIER: As in, when costs escalate, how do you review
10 and redesignate projects within the program?

11
12 MR WILLIAMS: Are you talking on the Kincumber --

13
14 MS GARNIER: Just generically with any program.

15
16 MR WILLIAMS: What we would do is look at the risks
17 associated with the particular projects, the cost of those
18 projects and the customer service standards that are
19 required to meet for each of those projects as well as
20 regulatory standards, so it is a matter of assessing when
21 these things have to be done in terms of the ageing
22 infrastructure and the risk that infrastructure poses to
23 the environment or customer service standards.

24
25 In looking at this particular project, there may be an
26 opportunity to delay the implementation of that project or
27 looking at other ways of reducing the cost. Particularly
28 at the present time where we have a very difficult
29 contracting environment, where there are a lot of
30 engineering projects going on and it is difficulty I guess
31 to get prices that reflect what the original estimates
32 were.

33
34 MR KIOZUMI-SMITH: To add to that, we have recognised
35 the comments made by the Halcrow report and taken those
36 on board. As we move forward, we will be looking at some of
37 the other methodologies available such as the Department of
38 Commerce's gateways approvals process where you have a
39 process of reviewing a project throughout its gestation and
40 re-evaluating its cost effectiveness as you move along,
41 which will provide opportunities to consider if there are
42 other options should costs escalate throughout the project
43 process.

44
45 MR WARNER: A similar question to that which was one of
46 the questions we put to Wyong. We note in your WaterPlan
47 2050 that you are to investigate the costs and benefits to

1 the Central Coast of accessing water from Tillegra Dam.
2 How of those studies progressed that council may have
3 undertaken? Do you have plans to further access water from
4 Hunter Water Corporation? If Tillegra improves drought
5 security on the Central Coast, do you think that Central
6 Coast should share in the costs somehow?
7

8 MR WILLIAMS: As Wyong and the headworks manager
9 responded to this question, we work with the headworks
10 manager and Wyong in terms of looking at the most efficient
11 and effective ways of providing water to Central Coast
12 residents. We are in continuing negotiations with the
13 Hunter Water Corporation in terms of looking at those
14 questions that you just mentioned and we are also doing our
15 own modelling and studies in terms of when it might be of
16 benefit to us to take water from the Hunter.
17

18 The fundamental issue for both councils is that the
19 councils do what is best in the interests of the local
20 communities and until that interest is clearly demonstrated
21 in terms of risk to the water supply, or in terms of cost,
22 it is not in our interest to take the water from the
23 Hunter. However, having said that, we do have in place an
24 agreement for 20 years to take water from the Hunter at a
25 cost that is established in that agreement.
26

27 At the present time the cheapest available source of
28 water is to build the connection from the Mardi to Mangrove
29 link and to look at Tillegra Dam in terms of the long-term
30 options for the future water supply for the Central Coast
31 under our WaterPlan 2050.
32

33 MS GARNIER: Your submission, in fact your presentation,
34 just quantified the real increase in the average
35 residential bill as being 37 per cent overall and that does
36 not include some of the exclusions that you noted such as
37 the contributions to the climate change fund, et cetera.
38 Why do you think such increases are necessary and do you
39 think these are affordable to your residents?
40

41 MR WILLIAMS: This is what the numbers are telling us in
42 terms of what it is costing us to operate the water supply,
43 even maintaining the existing, I guess, water supply
44 staffing structure that we have had for the last ten years.
45 The increased costs are due to the future capital works
46 that are required to maintain an adequate water supply into
47 the future and they also reflect the building block pricing

1 that we have followed in terms of the COAG agreement and
2 what IPART has requested in terms that we operate as a
3 commercial business getting a return on our assets.
4

5 MR KOIZUMI-SMITH: With regard to our prices, our revenue
6 at least, it is in the order of 60 per cent of our revenue
7 is now being driven by the return of assets, so our
8 investment base is driving a large part of our prices. And
9 particularly coming out of the drought where both councils
10 have invested significant amounts in securing the water
11 supply, that has been a large component in the increase in
12 revenue requirements.
13

14 MR WARNER: Your submission also highlights that many of
15 the output measures agreed at the last determination have
16 not been achieved, and whilst we acknowledge your efforts
17 in having to focus on the drought over the last little
18 while, and certainly drought mitigation measures, how can
19 we be confident and how can residents of Gosford be
20 confident that your forward program will actually be
21 delivered?
22

23 MR KOIZUMI-SMITH: It is probably not all that bad. I
24 don't agree that we didn't meet any of them. We have made
25 substantial progress against a number of wastewater and, as
26 we have commented in our submission, given we are a small
27 organisation we have been diverted by the drought. The
28 most important thing was ensuring that we had sufficient
29 water for our customers. We were down to I think it was
30 about 10 per cent of water supply as at approximately 18
31 months ago, so that was where our effort was put.
32

33 We have completed a number of the joint water
34 authority projects with regard to some of the groundwater
35 projects, the Hunter transfers and Lower Wyong transfers.
36 We have continued to do with regard to the Gosford centric
37 output measures new mains. We have reduced or are
38 addressing our leakage. And, with regard to wastewater, we
39 have made progress in terms of planning for some of the
40 wastewater projects that have been identified.
41

42 We acknowledge, though, and we deliberately deferred
43 those works because of the drought basically. Moving
44 forward with regard to the program that we have presented
45 in our submission we have tested it. We are conscious of
46 the fact that the council has in the past not delivered as
47 much as it said it would. We have been a lot more prudent

1 with what we intend to do moving forward, so we believe
2 what we have put in our submission is a very robust capital
3 works program and one that can be delivered by the council
4 over the next four years.

5
6 MS GARNIER: Moving on, in your submission you have
7 identified efficiency savings of point 5 per cent in years
8 one and two and point 25 per cent in year three in your
9 operating expenditure. Can you just explain, do you have
10 any plans in place for achieving these efficiency gains and
11 do you believe there is any potential for efficiency gains
12 to be made on your capital program?

13
14 MR KOIZUMI-SMITH: The director has suggested that if we
15 don't, he will be leaving. That will save us a fair of
16 money on an annual basis. Hopefully it won't come to that
17 and we will maintain our jobs.

18
19 We acknowledge, and it was identified during the
20 Halcrow review, that there are possibly some good
21 opportunities with regard to the procurement strategies
22 that we employ, so we will be looking for innovative ways
23 to engage with the private sector where we can start maybe
24 driving some efficiencies. It is optimistic. We have set
25 ourselves - it may not be in terms of big players seem a
26 stretch target, but for a little organisation we have set
27 ourselves a target that will stretch us but we believe
28 through smarter ways of doing business we can deliver those
29 efficiencies.

30
31 MR WILLIAMS: If I can just add, we have a strategic
32 business plan and one of those elements is the HR plan.
33 This is required under the State Government legislation
34 under DUOS. We are looking I guess to review our
35 resourcing in terms of where we need it, in terms of
36 delivering on those output measures that you mentioned, and
37 as part of that we are looking at efficiency gains in terms
38 of the operation of the system.

39
40 We are also looking at opportunities for, I guess,
41 private sector involvement in operation of the facilities
42 and benchmarking ourselves against other local governments
43 that may be using some private sector in terms of the
44 delivery of operational aspects. In terms of the capital
45 there are obviously, as you have indicated, opportunities
46 to bundle projects to get more efficient delivery of those
47 projects by private contractors.

1
2 MR WARNER: It is noted that a considerable amount, about
3 \$12m, is to be spent on the Gosford water factory. The
4 reasons for building that are given as providing an
5 advanced water recycling facility to facilitate community
6 awareness of water conservation and integrated water cycle
7 management - I would loosely call that almost an education
8 type facility - and also promoting and encouraging tourism
9 within the Gosford CBD.

10
11 IPART understands that the cost of the building is
12 high in proportion to the overall costs and is it
13 reasonable then that these costs be attributable to water
14 customers, particularly given that there is a tourism
15 driver here?

16
17 MR WILLIAMS: As you probably know, the highest priority
18 of the Gosford City Council I guess is the rejuvenation of
19 the Gosford CBD and as part of that we are looking at a
20 number of icon developments in terms of buildings and an
21 approach to sustainability in terms of getting this city
22 revitalised.

23
24 In terms of the Gosford water factory, that is just
25 one element in a mix that is being discussed with private
26 consultants who are looking at the redevelopment of the
27 city. There was a major advertisement in yesterday's
28 Financial Review inviting people to participate in this.
29 We are looking at the private sector funding of that as
30 well as council funding.

31
32 In answer to the last part of the question, the tail,
33 clearly we are not looking for this to be funded by water
34 customers only.

35
36 MR COX: My feeling about this is, after all you said it
37 is a 37 per cent price increase and that is quite a large
38 price increase, and I am not sure that I have a good sense
39 of why such a large increase is necessary. What would you
40 think was, say, the three most important contributors that
41 require a price increase of this magnitude?

42
43 MR WILLIAMS: Clearly the first one is the return on
44 assets, which our manager here has indicated contributes
45 something like 60 per cent of our total costs, so the 37
46 per cent is mainly due I guess to an incremental increase
47 that is required to cover the return on our assets.

1
2 We have tried to reduce that by extending that return
3 over an eight-year period rather than a four-year period.
4 The other issues that are driving the business obviously is
5 customer service standards, the need for high quality water
6 and also to reduce main breaks within the system, and as
7 well as that is system security in terms of maintaining the
8 water quality standards and our sewerage wastewater
9 standards.
10
11 They are the three main elements - customer service
12 standards, renewal of assets and the return on assets.
13
14 MR COX: Would it be possible to give us a sort of
15 decomposition of the price increase into those three major
16 contributors? It would help me to think my way around all
17 that.
18
19 MR WILLIAMS: Yes. We have given that presentation to
20 council about what was driving the price and we can provide
21 that to you. And with a breakdown.
22
23 MR COX: Thank you.
24
25 MS KRIEGER: Just to follow up from that what Jim Cox has
26 just asked you, could you also deal with the relativities
27 from this point of view: Wyong's increases are said to be
28 in the main at CPI, with one exception in the trade waste
29 area. Yours are considerably higher. I understand that
30 you seek a return on equity and they don't, but the other
31 things that you just mentioned, customer service and mains
32 maintenance and so forth, I would expect that they are
33 things that Wyong also aspires to, so there still seems a
34 large differential there that is unaccounted for between
35 the two organisations. Can you comment on what the key
36 drivers are for those differences?
37
38 MR WILLIAMS: Can I just make a comment: with respect,
39 the magnitude of the return on assets is really the
40 significant component. Wyong would also have within its
41 submission an increased renewals program and the sorts of
42 things that I have indicated, customer service standards to
43 maintain those as part of their program. But the major
44 driver is the return on assets that leads to that increase
45 in price.
46
47 MS KRIEGER: What I am saying I guess is that it may well

1 be the major driver but it does not account for all of it,
2 there must be a small number of other factors that account
3 for the significant difference between the Wyong proposal
4 and the Gosford proposal.
5
6 MR WILLIAMS: It is in excess of 37 per cent.
7
8 MR KOIZUMI-SMITH: We can't comment on that. I suppose
9 the flip side to the question is can Wyong deliver the same
10 service that Gosford does with 37 per cent less revenue
11 than we do - with prices at 37 per cent less. We have
12 looked at our budgets very tightly. We have put a lot of
13 acid on them and we believe that what we are putting
14 forward is a very robust and efficient program of works.
15
16 We have identified through the Halcrow review that
17 there are areas that will be coming out of our prices which
18 will bring the costs down somewhat, so there has been some
19 accounting double dipping that will reduce those prices.
20 But we can't comment on Wyong. There are two sides to the
21 story. We believe that it is a very efficient program we
22 are bringing forward.
23
24 MR WILLIAMS: We have included in our price submission
25 an efficiency gain in our operating cost.
26
27 THE CHAIRMAN: I wonder if I can join this discussion.
28 Listening to you, and in fact to your submission as well, I
29 get a sense that quite a lot of the expenditure that you
30 propose is to remedy maintenance, ageing facilities and so
31 on. I suppose the question is, maybe the reason for this
32 is that more should have been done earlier and that in a
33 sense is part of the explanation, that you are catching up
34 on some backlog maintenance. And I suppose an inference
35 from that could be that water prices were lower in the past
36 than they should have been rather than too high in the
37 future. Is that a --
38
39 MR WILLIAMS: That is a personal view that I have.
40 Obviously clearly from the chart, you can see that water
41 prices have been driven down from 1995 to be only two
42 thirds what they were back in 1995. One of the results of
43 that is that there has been less investment in terms of
44 augmentation and replacement of ageing assets and now we
45 are looking at a situation where they need to be to get
46 back up to a level that is sustainable in the future.
47

1 THE CHAIRMAN: Thank you for that. Another question is
2 that you, Gosford Council, decided to spread getting to an
3 adequate return on assets over eight years rather than
4 four. I assume that was because of an assessment of
5 affordability.

6
7 MR WILLIAMS: That is right.

8
9 THE CHAIRMAN: My question is, is lowering the price for
10 everybody below what I will call is an economic rate of
11 return the best way to meet affordability concerns? Would
12 a more targeted approach be to target the people that can't
13 afford it rather than lowering the price for all of us?

14
15 MR WILLIAMS: This is obviously a political question. We
16 have adopted the approach of postage stamp pricing for all
17 users of the system, that they pay the same price, and
18 obviously what we are looking at as a council is to reduce
19 the impact of those price increases on the community so the
20 longer we can spread them out the better.

21
22 It gets back also to the issue of when we stage our
23 capital renewals program and our new assets in terms of the
24 Terrigal to Kincumber treatment plant. Obviously deferring
25 those to the latest time practicable, and with I guess the
26 risk exposure we would accept, is the best thing to do in
27 terms of mitigating the impact on the community. And that
28 is one of the central criteria for how we have moved
29 forward.

30
31 THE CHAIRMAN: I will try to be a bit more specific. You
32 can still have postage stamp pricing, but you can have a
33 system of rebates which is more targeted than having a
34 lower postage stamp price for everything.

35
36 MR WILLIAMS: As per the answer that Wyong gave, we are
37 governed by the Local Government Act here. At the present
38 time, the only rebate system we can implement is through
39 pensioners but not in terms of people's economic or social
40 circumstances.

41
42 MR COX: I wanted to ask you about the eight-year period.
43 I am not sure I quite understand it. You are saying that
44 certain capital work to be done over the four years will be
45 paid for in the prices through the eight-year period. Is
46 that essentially what you are proposing?

47

1 MR WILLIAMS: It is a return on assets. We will not
2 achieve a full return on the revenue asset base until the
3 eighth year.

4
5 MR COX: I think I understand that. My question is: are
6 you planning a peak of expenditure in this four-year period
7 or will there be another equally large period of
8 expenditure in the subsequent four-year period and what
9 might this mean for prices if we are deferring recovery of
10 costs?

11
12 MR KOIZUMI-SMITH: We were conscious of that, that we
13 did not end up with a spike in four years time when the next
14 price determination came through. However, our major
15 expenditure is being delivered right now and we are going
16 back to a normal program of expenditure. So as our price
17 is being driven largely by our return on assets, we don't
18 believe it will have a shock in the next price path because
19 there will be nowhere near as much new capital being
20 delivered.

21
22 MR COX: Thank you for that.

23
24 THE CHAIRMAN: I am going to depart slightly from the
25 advertised timetable. We have now had the presentation
26 from the combined water authorities. Rather than getting
27 everybody in the audience to wait till the middle of
28 afternoon, I will give everybody in the audience the chance
29 to ask questions or make comments on the presentation of
30 the combined water authorities. This is the opportunity
31 for the audience, if you wish, to comment or ask a
32 question.

33
34 MR BANYARD: I would like to ask a question relating to
35 tax dividends and offsets. Hunter Water, the Central Coast
36 water authorities and Sydney Water are three separate units
37 that operate differently. You all pay tax, you all pay
38 dividends and you all receive offsets. Generally the tax
39 comes off the net profit and the dividend comes then out of
40 the net profit.

41
42 Do the water providers on the Central Coast get
43 significant tax benefits from doing things and is that
44 taken off the net profit? Do the water providers on the
45 Central Coast pay dividends to the State Government as the
46 other two organisations do, and what offsets or kickbacks
47 or contracts or gifts is this water utility given because

1 we as consumers tend to compare the water price per unit
2 price across the three water areas? That is my question.

3
4 MR WILLIAMS: Can I ask Cate Trivers, the manager finance
5 for Wyong, to answer that question because it does relate
6 to how the local governments operate within the state
7 framework.

8
9 MS TRIVERS: In regard to the tax position of both
10 councils and of the Joint Water Supply Authority, in actual
11 fact we are not subject to taxation, so there is actually
12 no taxation as such paid and no deduction. I should say,
13 however, that we are subject to the GST legislation and we
14 are also subject to FBT and pay as you go. They are the
15 taxes that local government bodies currently pay. In
16 regard to any dividends to State Government, we do not pay
17 any, nor do Wyong Shire Council, Gosford City Council or
18 the joint water activities.

19
20 I might ask you to clarify the third part of the
21 question for me, please.

22
23 MR BANYARD: Councils and water authorities can get grants
24 from the government. They can get preferential treatment.
25 For example, you might want to buy some new capital
26 equipment and you may get a 50 per cent subsidy for it, or
27 whatever. There is the other option of contras, kickbacks,
28 whatever you want to call them, where they may do work for
29 you and you may do work for them and basically no money
30 changes hands. Do you get what I mean?

31
32 MS TRIVERS: In regard to works for individuals or works
33 for other government agencies?

34
35 MR BANYARD: Somebody might do some water works for
36 you and in return you might give them some bus stops.

37
38 MS TRIVERS: Both councils are fully audited, so all
39 transactions that we undertake of a financial nature are
40 subject to external audit and, as such, have to pass all of
41 those tests. In regard to that, we have to be able to
42 provide and document the substantiation of any evaluation
43 of works that are conducted by any other entity or by
44 ourselves. So there are proper valuation processes in
45 place which are then subsequently audited.

46
47 There are not any kickbacks or other types of things

1 that are in place. If the works are done, they are
2 properly accounted for and at correct value. That is also
3 something that we have to do not just for audit but also
4 from a taxation point of view to ensure that we account for
5 all GST-type entries appropriately.

6
7 With regard to all grants that council receives,
8 basically, if we are receiving grants to undertake works,
9 then we have to, once again, equip those grants with the
10 relevant agency and provide full financial accountability
11 against those. That is the same for both Wyong and Gosford
12 councils.

13
14 THE CHAIRMAN: Are there other questions and comments?
15 In that case, I thank the Gosford City Council representatives
16 for their presentation and I call on the representative of
17 the New South Wales Council of Social Service.

18
19 COUNCIL OF SOCIAL SERVICE OF NEW SOUTH WALES

20
21 MR MUKHERJEE: My name is Dev Mukherjee. I am the
22 senior policy officer of the Council of Social Service of New
23 South Wales, affectionately known as NCOSS. NCOSS is the
24 peak body for the social and community services sector in
25 New South Wales. NCOSS works with its members on behalf
26 of disadvantaged people in communities towards achieving
27 social justice. NCOSS provides an independent voice on
28 welfare and policy issues and social and economic reforms.
29 It is a major coordinator of the non-government social and
30 community services sector in New South Wales.

31
32 Thank you for the opportunity to comment on Gosford
33 and Wyong councils' proposed prices for wastewater and
34 stormwater. NCOSS acknowledges that securing the water
35 supply is of central importance; however, we remain
36 extremely concerned about the impact of past and future
37 price rises on welfare dependent and on other low income
38 households in the Central Coast.

39
40 In our submission to IPART, we highlighted how, by
41 July 2012, single aged pensioners in the Gosford local
42 government area will face a significant increase in their
43 water bills of around 37 per cent, which is actually the
44 same percentage increase as the average bill. However,
45 that represents a greater proportion of a single aged
46 pensioner's income than an average household income.

1 It has been commented today that very few people
2 approach councils when they are having difficulty in paying
3 their water bills. I think for Gosford it was less than
4 10 for over three years. Anecdotal evidence from the NCOSS
5 members who provide things like emergency relief suggests
6 that utility bills are paid first when someone is paying
7 their bills and when people are in financial difficulty,
8 and they will approach an emergency relief provider for
9 other expenses. People may not approach councils to pay
10 their water bill, but they can still be in financial
11 difficulty.

12
13 For this reason, NCOSS believes that both Gosford and
14 Wyong councils should improve their protection for low
15 income household, especially welfare dependent households.
16 Such measures could include instalment payment plans. In
17 the Sydney Water and Hunter Water areas, they have payment
18 assistance schemes. They don't exist, as far as I am
19 aware, on the Central Coast. While those sorts of schemes
20 provide a short-term solution to someone in financial
21 difficulty, they have the advantage of linking in a
22 household in financial difficulty with the social welfare
23 sector, in particular referral to financial counselling
24 which provides, if you like, one element of the safety net.

25
26 No interest loans were mentioned earlier. NCOSS has
27 been an advocate of no interest loan schemes in New South
28 Wales for a number of years. We are pleased that, over the
29 past year, the National Australia Bank has injected some
30 \$3m into no interest loans in New South Wales and Victoria.
31 However, we do believe there is a role for utilities to
32 provide to low income households no interest loan funding -
33 some capital funding - for the purchase of water efficient
34 appliances.

35
36 The other issue that has been mentioned today is
37 pensioner rebates. We do recognise that pensioner rebates
38 on the Central Coast are limited by the Local Government
39 Act. We think that needs to be brought to the attention of
40 the New South Wales Government. We have, in fact, done
41 that; as yet they have not responded. We do believe any
42 increase in the pensioner rebate should be at least
43 partially funded by the New South Wales Government. We
44 don't believe it is necessarily the responsibility of
45 Central Coast councils but a contribution from the councils
46 would be more than welcome.

47

.14/11/08 48 NCOSS

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1 One thing that has not been discussed today that we would
2 recommend, although it is not directly related to hardship,
3 would be that the councils join the Energy & Water
4 Ombudsman NSW. That Ombudsman provides a complaints
5 mechanism for utilities in New South Wales, and we believe
6 it is part of the safety net to ensure that there is
7 someone who can advocate particularly on behalf of low
8 income households, and in fact any other consumer.

9
10 We are aware that the councils are in a difficult
11 position in terms of supplying water on the Central Coast.
12 The ongoing drought obviously has caused a great deal of
13 stress, but our major concern is that the low income
14 households across the country, but particularly in the
15 Central Coast, are incurring an unfair burden as price
16 increases are above CPI. Things like pensions and
17 benefits, if we are lucky, increase at the CPI, but low
18 income households, particularly welfare dependent
19 households, tend to spend a greater proportion of their
20 incomes on essential items such as electricity, water and
21 transport, all of which have been rising at a faster rate
22 than the consumer price index. That means that, over time,
23 welfare dependent households will have a lower disposable
24 income once those essential items are paid.

25
26 I would like to thank IPART again for the opportunity
27 to comment. That is all I have to say for now.

28
29 THE CHAIRMAN: Thank you. We might have some
30 questions for you from the secretariat.

31
32 MR WARNER: NCOSS has proposed payment assistance
33 and no income loans. Do you propose that the cost of these
34 programs be passed on to all water users on the Central
35 Coast or should there be some sharing with government and
36 how are those to be funded? The implication for that is,
37 if it is going to be passed onto the customers in the
38 Central Coast, increases will have to be greater than the
39 37 per cent that Gosford has already forecast. In addition
40 how would you respond to the criticism we sometimes hear,
41 namely, that the cost of administering various payment
42 plans and assistance schemes is likely to be high and would
43 also act to increase costs?

44
45 MR MUKHERJEE: To answer the first part of your question,
46 we believe that some of the funding for payment assistance
47 schemes and no interest loans should come from the State

.14/11/08 49 NCOSS

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1 Government. I forgot to mention that the State Government
2 has actually made a contribution to no interest loans in
3 New South Wales of \$840,000 a year for their operation and
4 there is some capital funding from the National Australia
5 Bank. There is still some room for utilities to
6 contribute.

7
8 MR WARNER: Is that available for all councils? Can all
9 councils benefit?

10
11 MR MUKHERJEE: It does not necessarily go to councils, but
12 it goes to a non-government organisation. There are about
13 45 of them now across the state. There are some on the
14 Central Coast. That has gone a long way to securing no
15 interest loan schemes in New South Wales, but there is
16 still a lot further to go. They are not accessible
17 everywhere. That is part of our issue.

18
19 The beauty about no interest loans is that we are
20 talking about a one-off payment which will last a number of
21 years because it is loan scheme. What we are asking for is
22 a capital contribution, which might be \$1m, which has the
23 potential to last 20 years. We are not really talking
24 about very many people at any one particular time. Over a
25 period of time, obviously the value of that will decline,
26 but the rate of repayments is greater than the banks can
27 achieve - virtually, 100 per cent; so a very small
28 investment can go a very long way. That \$1m might be lent
29 out 20, 30 times in its life.

30
31 With payment assistance schemes, we would prefer to
32 see a system similar to the energy accounts scheme, which
33 is available across the state and funded through the New
34 South Wales Government rather than the water authorities
35 necessarily. We do think that it is unfortunate that
36 payment assistance schemes for water occur only in Sydney
37 and in the Hunter and not elsewhere.

38
39 Having said that, given Tuesday's mini-budget, it is
40 unlikely given the current circumstances, that we will see
41 the State Government introduce a broad-based payments
42 assistance scheme in the future.

43
44 The other part of your question was about spreading
45 the cost of these things to all customers and therefore
46 raising the price. That is true, but there are two parts
47 to that; our major concern is for those low income

1 consumers who are having difficulty paying their bills and
2 we don't believe the cost is that significant compared with
3 things like the rate of return, for example, on capital. I
4 am not going to hazard a guess as to how much it would
5 actually cost. I am aware, though, that Sydney Water and
6 Hunter Water and other utilities do manage to introduce
7 payment plans, instalment plans, quite effectively.

8
9 There have been some suggestions from some of the
10 energy companies in particular that there are benefits to
11 such schemes because you do not have to spend a lot of
12 money chasing unpaid bills - so there are savings that
13 could be made as well.

14
15 MS GARNIER: Turning now to another part of your
16 submission, you stated:

17
18 NCOSS is concerned that the Councils'
19 household refit program has been
20 discontinued due to the availability of
21 free refit services by private sector
22 businesses.

23
24 I believe you referenced Gosford's submission on that.

25
26 You argued that councils may need to pick up the
27 program in the future if the private sector fails to
28 deliver the program. Our question on this really would be:
29 given the adoption of this program by councils would
30 involve significant costs, the water savings that are
31 achieved by the programs may not outweigh the costs, so do
32 you still believe it would be prudent for the councils to
33 pursue these programs?

34
35 MR MUKHERJEE: Again it is about targeting them
36 appropriately to low income households and those most in
37 need - so, yes. We believe that is fairly effective as
38 part of the social safety net for low income households.
39 Don't get us wrong. We are pleased that the private sector
40 has taken these things on, but given the uncertainties in
41 global economic times, changes, even regulations around
42 emission reductions and the like, we are not sure how that
43 can be managed.

44
45 The private sector may find these sorts of refit
46 programs unprofitable in the future, but we do think that
47 they are an effective means for low income earners to

1 reduce their consumption of water and therefore their
2 bills. So we would still suggest that they are part of the
3 social safety net and, yes, they do incur a cost.

4
5 THE CHAIRMAN: I would like to come back to the question
6 that was asked about no interest loans and assistance to
7 allow people to pay over time. If the water customers will
8 not finance that, and I can understand the reasoning why
9 they shouldn't, then you would appreciate that what you are
10 asking for is really outside our jurisdiction. I want to
11 be clear on that.

12
13 MR MUKHERJEE: Sure, I understand that, but I will take
14 every opportunity to talk about these things wherever I
15 can.

16
17 THE CHAIRMAN: Good on you; good luck to you.

18
19 MR MUKHERJEE: The councils are here; they might be
20 listening.

21
22 THE CHAIRMAN: I suppose where it could relate to our
23 jurisdiction is if such schemes were widely available to
24 assist people who had base affordability problems to meet
25 their water bills. If such schemes were widely available,
26 then it might be argued that it might not be necessary to
27 reduce the price for everybody on behalf of people who
28 cannot afford water.

29
30 I made a comment earlier, which you no doubt heard,
31 that reducing the price for everybody is not a targeted way
32 of assisting people. Your scheme would be targeted and
33 then it would not be necessary to reduce the price for
34 everybody if your scheme was widely available. Is that a
35 fair conclusion?

36
37 MR MUKHERJEE: Well, I don't know that I am in a position
38 to comment on that. I am not going to try and attempt to
39 cost the councils' operations, so I cannot really comment.

40
41 MS KRIEGER: I have one quick question. You have
42 advocated that you would like to see the Gosford and Wyong
43 water authorities subject to EWON.

44
45 MR MUKHERJEE: Yes, that's right.

46
47 MS KRIEGER: Is that something that requires a voluntary

1 step on their part or does that require a legislative
2 change and does it do anything other than provide a
3 complaints service or a complaints mediation service which
4 the councils may currently be providing just within their
5 organisations? Does it give access to further welfare
6 services through EWON?

7
8 MR MUKHERJEE: EWON is essentially a complaints
9 mechanism. As to the first part of your question, it would just
10 take a voluntary decision by Gosford and Wyong councils.
11 My advice from EWON itself is that they are eligible to join.
12 One of the things that joining an Ombudsman's scheme does
13 do is improve the internal complaints system. We have seen
14 this in Sydney Water and Hunter Water, who are members,
15 and in all of the energy companies, which are members. It
16 does improve their internal complaints systems.

17
18 It actually reduces the number of complaints that
19 could potentially be made because it drives a customer
20 relations process, if you like. Things get dealt with
21 better in-house if they know some external review is
22 possible. This has occurred in both Sydney Water and
23 Hunter Water. Their internal systems have improved
24 significantly to avoid any complaints going to EWON.

25
26 MS KRIEGER: Thank you.

27
28 THE CHAIRMAN: Thank you very much for your
29 presentation. I would now like to ask Mr Barclay from the
30 UDIA to come forward.

31
32 MR KOIZUMI-SMITH: Could I make a comment with
33 regards to that presentation?

34
35 THE CHAIRMAN: We will allow comments at the end of the
36 day.

37
38 URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA

39
40 MR BARCLAY: Good morning members of the tribunal and
41 ladies and gentlemen. My name is Peter Barclay and I am
42 here on behalf of the Urban Development Institute of
43 Australia. The UDIA has put together a submission to the
44 tribunal on this issue, but it has generally focused on the
45 cost-sharing arrangements for the Tillegra Dam connection
46 to the Central Coast. I do not think it is necessarily
47 helpful for me to go through the finite detail of each

1 item, but I want to present to everybody that there were
2 four main recommendations that the UDIA felt would give a
3 more balanced and fair outcome.

4
5 The first is:

6
7 UDIA NSW recommends consideration of
8 apportionment of costs for Tillegra Dam
9 between Hunter Water and the Central Coast
10 Councils be postponed until an agreement on
11 an appropriate cost sharing model is
12 reached. This will improve transparency
13 and a more equitable apportionment of costs
14 between beneficiaries.

15
16 I should mention that I do not have a background in
17 accounting, so I may not be able to answer fully some of
18 the questions that these things may raise.

19
20 The second recommendation is:

21
22 UDIA NSW recommends that Hunter Water
23 increase its proportion of funding to take
24 into account potential future unknown
25 beneficiaries rather than pass this cost
26 onto future development.

27
28 The third recommendation is:

29
30 UDIA NSW recommends that costs for the
31 Tillegra [Dam] be apportioned equally to
32 all existing and future beneficiaries of
33 the dam in periodic pricing or an
34 annualised charge for both the Hunter and
35 Central Coast regions. Apportioning
36 developer charges for the dam on new
37 development is inequitable considering
38 BASIX compliance defers the need for
39 investment in water infrastructure by
40 reducing demand and consumption.

41
42 The final recommendation is:

43
44 UDIA NSW recommends that no cost be
45 apportioned to new residential development
46 in the form of DSP Charges. An annualised
47 or periodic charge to all customers and

1 beneficiaries remains the most equitable
2 model to finance major infrastructure such
3 as the Tillegra Dam.

4
5 By way of supporting the final recommendation, which
6 probably encapsulates all the others, the development
7 industry currently, certainly on the Central Coast, is
8 struggling to survive. The reasons for that are that
9 development costs have generally blown out, making any
10 development of land subdivision infeasible.

11
12 In the conclusions of the UDIA submission, we provided
13 a synopsis of development costs for a typical lot to be
14 developed within the Warnervale town centre. It shows that
15 total government fees at all levels account for 39 per cent
16 of the total development costs. The result of that is that
17 the developed land price is approximately \$29,000 more than
18 the sale price, so under the current system it can't work
19 in our opinion.

20
21 I think that is really all that I can say at this
22 stage.

23
24 THE CHAIRMAN: Thank you. Questions from the secretariat.

25
26 MR WARNER: You suggest that there should be a cost
27 sharing arrangement between Hunter Water and the Central
28 Coast and that presumably it does not come out of developer
29 charges. How do you propose that this sharing take place?
30 How do we strike a balance on the relative share of the
31 Central Coast and Hunter?

32
33 MR BARCLAY: I have got a strategy report here that was
34 included in the submission which says that there will be
35 sufficient water for the anticipated population growth in
36 the region until the year 2031. The UDIA has questions
37 about whether the Tillegra Dam even needs to support the
38 development of future households in the regions. In other
39 words, with the impact of BASIX, the new infrastructure
40 that Gosford Council spoke of, we believe that there may
41 well be enough water supply with those features without
42 this dam.

43
44 MS GARNIER: Just moving on to another part of your
45 submission, you recommended that the consideration of the
46 apportionment of costs for Tillegra between Hunter Water
47 and Central Coast be postponed until agreement on a cost

1 sharing model is reached. In a practical sense the
2 tribunal needs to set prices in time for 30 July 2009. Do
3 you have any ideas or thoughts on how prices for each of
4 the utilities could be set in the interim period to
5 accommodate these uncertainties?

6
7 MR BARCLAY: The short answer is no, I don't, but a fuller
8 response is that we believe that if there are costs to be
9 borne by the wider community that they should be borne
10 across the whole community, not just through increased
11 charges on new developments.

12
13 MR WARNER: If growth is a driver of Tillegra Dam or any
14 other water augmentation, isn't it fair that the people who
15 are responsible for that growth pay for that augmentation?
16

17 MR BARCLAY: Yes, that is fair. Our issue is who are the
18 beneficiaries of the dam and in the submission we point out
19 that there may well be beneficiaries, industrial and future
20 uses that we are not aware of who may be major
21 beneficiaries of the Tillegra Dam. Certainly it will
22 presumably provide some certainty in drought times but I
23 must admit I am not enough aware of the circumstances to
24 comment on how much that impact will be.
25

26 MR WARNER: Clearly if there are identified beneficiaries
27 in the form of new development, you would suggest from your
28 remarks that somehow they should contribute to the costs?
29

30 MR BARCLAY: I would suggest that the construction of
31 Tillegra Dam will have no direct impact on a new
32 subdivision at Warnervale town centre as such. It benefits
33 the whole community, not just the people who will live in
34 that new development, therefore it should be shared by the
35 whole community.
36

37 MR COX: You seem to think that the residents of the
38 Central Coast area should pay part of the costs of Tillegra
39 Dam in periodic charges and I wonder why you think that?
40

41 MR BARCLAY: I must admit I can't answer that very
42 comprehensively because I didn't write this submission. My
43 understanding of the submission is that we are not in a
44 position to say there will be no benefit from the dam, or
45 what the percentage will be, which goes back to the earlier
46 question. Given that there will be some benefit, we
47 believe that that benefit will benefit the whole community,

1 not just benefit new developments.

2
3 THE CHAIRMAN: Accepting that some of it benefits the
4 whole of the community because of security of water supply,
5 nevertheless there are future beneficiaries, and by
6 definition that means they are not here now.

7
8 MR BARCLAY: True.

9
10 THE CHAIRMAN: And to the extent that it is the future
11 beneficiaries who benefit, it is not really fair, is it, to
12 ask the current people to pay on behalf of the future
13 beneficiaries?
14

15 MR BARCLAY: I think that is a reasonable statement. I do
16 not know who should pay.

17
18 THE CHAIRMAN: The people who currently live there
19 should not pay for people who are going to live there later on.
20 In that case, is there anyway other than the developer
21 charge of getting the people who come later on to pay for
22 it?
23

24 MR BARCLAY: If there is a shortfall now, it should be
25 shared across the whole community, the wider community, in
26 our opinion. The future, without having access to the
27 modelling of the effects of the Mardi, the new connection,
28 all I can rely on is the submission information, which
29 suggests that there may be no need for this extra water.
30

31 THE CHAIRMAN: That is in respect of the people here.
32 They have argued exactly that. But, of course, there is
33 another group we will be addressing a few weeks time in the
34 Hunter and it may be that the question I have just asked
35 you will come up then.
36

37 MR BARCLAY: Undoubtedly.

38
39 THE CHAIRMAN: In that case, thank you for your
40 presentation.

41
42 MR BARCLAY: Thank you.
43
44
45
46
47

1 TOTAL ENVIRONMENT CENTRE
2
3 THE CHAIRMAN: I ask Mr Lee Martin from the Total
4 Environment Centre to come forward.
5
6 MR MARTIN: Thank you for the opportunity to address the
7 tribunal and also for the opportunity to participate in the
8 submissions process.
9
10 I might start by making a brief comment about the
11 issue that seems to be dominating today's proceedings and
12 that is Tillegra Dam. One could call it the "white
13 elephant" in the room. It is fair to say that TEC does not
14 believe that Tillegra Dam is required for the Central
15 Coast, nor do we believe that it is required or justified
16 for the Hunter. I will outline some of the reasons for
17 that argument in relation to the Central Coast today and I
18 look forward to the opportunity to outline those arguments
19 again in Newcastle in relation to the Hunter, as I know
20 many others do as well.
21
22 I will start by addressing the council's capital
23 expenditure requirements. In general we would support the
24 proposed capital expenditure on the Porters Creek, Gosford
25 water factory and Woy Woy water recycling projects. We
26 would urge the councils and also IPART to identify
27 additional opportunities for recycling and in fact a number
28 of those were identified in Gosford's and Wyong's WaterPlan
29 2050 strategy.
30
31 That brings me to the issue of demand management and I
32 will talk about recycling as part of that in due course.
33 We would recognise that the councils have invested
34 significantly in demand management since the last price
35 determination and that was obviously as a significant
36 component of their response to the drought.
37
38 We are not convinced, however, that the councils' approach
39 to demand management could in anyway be described
40 as best practice at this point in time. I say that because
41 of the failure to adopt permanent water savings measures as
42 have been adopted by Sydney Water, or will be adopted by
43 Sydney Water once the current high level of restrictions
44 are relaxed, and also as have been adopted in Melbourne and
45 in Adelaide and have been well accepted.
46
47 We note in particular that the draft WaterPlan 2050

1 strategy proposed permanent water savings including
2 measures such as restrictions on hosing of hard surfaces,
3 requirements such as trigger nozzles for washing of motor
4 vehicles and so forth.
5
6 We see permanent water savings measures as an essential
7 component to overall demand management and we are
8 disappointed that the councils did not move towards
9 adopting those measures in the final WaterPlan 2050. We
10 believe that there is still some way to go in respect to
11 demand management.
12
13 We also think that investigation of relaxing the
14 current security of supply criteria is warranted to
15 investigate what is the appropriate frequency and timing of
16 water restrictions and whether there are additional demand
17 management opportunities that can be presented through
18 that.
19
20 We note that the tribunal will be engaging consultants
21 to review the councils' projected water sales and we would
22 urge the tribunal to ensure that as part of those
23 investigations the consultants are asked to review the
24 adequacy of the councils' demand management programs and
25 in particular the contribution that the use of permanent water
26 savings measures and/or change of security of supply
27 criteria could make. We do believe there is some
28 additional work that can be done.
29
30 In relation to security of supply, it is fair to say
31 that we see the Mardi Mangrove pipeline as a reasonable
32 option for securing Central Coast's water supply for at
33 least the next 30 years. It was our view that it was not
34 the best option that was available to the councils in the
35 WaterPlan 2050 strategy. We in particular noted that the
36 costs and benefits identified several recycling approaches,
37 including environmental flow substitution into Wyong Creek
38 and also indirect potable reuse into Mardi and Mangrove
39 Dams and we believe that the evidence that was presented in
40 those cost and benefit analysis showed that recycling was
41 the superior strategy.
42
43 Nevertheless, with the exception of the recycling
44 options, the Mardi Mangrove pipeline was clearly superior
45 to the other options presented and vastly superior to
46 Tillegra Dam as an option for securing the supply for the
47 Central Coast.

1
2 I might also say that the approach that was followed
3 in developing the WaterPlan 2050 strategy has much to
4 recommend it and that was an analysis of the costs and
5 benefits, both financial and environmental costs and
6 benefits of the various competing options, assessing how
7 long those options would secure the supply until, and
8 providing the opportunity for the public to comment on all
9 of that information and comment on the draft strategy when
10 it was chosen.

11
12 That stands in stark contrast to the approach that
13 Hunter Water has followed with the H250 strategy, which
14 amounts to nothing more than an advocacy document for a
15 predetermined strategy that Hunter Water has chosen.
16 Again, I look forward to an opportunity to elaborate on
17 that point of view in Newcastle.

18
19 We do believe that it is a reasonable approach that
20 the councils are following, which brings us to the issue of
21 Tillegra Dam. It is clear from the information that was
22 presented in the WaterPlan 2050 strategy that the Mardi
23 Mangrove pipeline secures supply for the Central Coast for
24 a considerable period of time at a lesser cost and at
25 lesser environmental cost than Tillegra Dam. We can see no
26 reason why Tillegra Dam is required for the Central Coast,
27 notwithstanding the fact that supply for the Central Coast
28 was the original justification presented for the dam when
29 it was announced by then Premier Morris Iemma in
30 November 2006.

31
32 We note that the justification for the dam has since
33 shifted to drought security for the Hunter Water's area of
34 operations. Again, we believe that that is a flawed
35 argument.

36
37 Given that the Central Coast has adopted its own
38 strategy, given that it has been successful in securing
39 federal funding to support the implementation of that
40 strategy and given that it is superior on a cost and
41 benefit basis to Tillegra Dam, we see no justification for
42 including a provision for recovering the costs of Tillegra
43 Dam in the prices for Gosford and Wyong water.

44
45 I might make a response to an issue that was raised in
46 the discussion paper and was also raised in questions
47 earlier today, and that is the statement that, given that

1 Tillegra Dam is proceeding, given that it is going ahead
2 and that the Government has made a decision to proceed with
3 it, that there needs to be consideration given to the
4 apportionment of costs.

5
6 I think it is important to make the point that
7 Tillegra Dam is a proposal. At this point of time we have
8 not as yet seen an environmental impact statement for the
9 dam. It has not been through the approvals process in New
10 South Wales. It is currently subject to a referral under
11 the Environmental Protection Biodiversity Conservation Act
12 and there is a process that needs to be followed there, so
13 we would be concerned by any assumption that Tillegra Dam
14 is going ahead given that there is a detailed approvals
15 process that needs to be satisfied before it can proceed.

16
17 I might also place on record our concern that the
18 State Government has precluded the tribunal from a full and
19 rigorous assessment of the need for Tillegra Dam. That is
20 a matter that I understand is outside the tribunal's
21 control but the direction given by the State Government to
22 the tribunal is essentially precluding the tribunal from
23 carrying out its role in determining whether Tillegra Dam
24 is a justified form of capital expenditure.

25
26 We think that is a disturbing interference in the
27 tribunal's operations and undermines the independence of
28 the tribunal and it also undermines the capacity for the
29 community to have a rigorous and thorough assessment of
30 Tillegra Dam and we are confident that any such rigorous
31 and thorough assessment of Tillegra Dam would reach the
32 conclusion that it is not required. As I said, I wish to
33 place that on record. We are deeply concerned at that
34 degree of interference by the New South Wales State
35 Government and we think it compromises the process that
36 has been followed in this review.

37
38 Having addressed Tillegra Dam, I want to now turn to
39 some of the other issues that the tribunal will be
40 considering in this review.

41
42 The tribunal in its issues paper raised the issue of
43 pricing principles for recycled water schemes. I would say
44 that in general we support the approach that the tribunal
45 is proposing for recycled water prices, in particular the
46 principle that the costs of recycled water schemes should
47 be attributed across the customer base, not merely to those

1 people who are the direct users of recycled water. And
2 that recognises the fact that whilst not all of Gosford's
3 and Wyong's customers will be directly consuming recycled
4 water themselves, they all benefit in terms of costs
5 foregone from other infrastructure and, also I might add,
6 the environmental benefits of reducing the amount of
7 effluent that is discharged into receiving waters, so we
8 strongly support that principle.

9
10 In relation to the output measures that the tribunal
11 is using for Gosford and Wyong councils, we believe those
12 are appropriate. However, as noted in our submission, we
13 would like to see some output measures adopted in terms of
14 demand management initiatives and recycled and recycling
15 activities, so whilst we think that the output measures are
16 generally a good approach we think they could be broadened
17 to provide a better perspective on the councils'
18 operations.

19
20 That brings us to the issue of the actual prices
21 themselves and the structure of pricing. I have discussed
22 our concerns about councils' demand management strategies
23 and that we would urge the tribunal to ensure that its
24 consultants, in assessing an appropriate level of water
25 sales, consider what additional demand management
26 opportunities may be available.

27
28 As regards to the volatility that may be present in
29 the councils' revenues, we accept that to a large extent
30 the nature and timing of restrictions, as in when they are
31 relaxed, what levels of restriction are in place at any
32 particular time, will have a considerable bearing on the
33 amount of revenue which the councils receive over the
34 current price determination.

35
36 In view of that, we would support the tribunal
37 adopting a mechanism for adjusting prices in the next
38 review, adjusting the revenue requirement in the next
39 review, if it turns out that there is a significant
40 difference between the projected revenue and the water
41 sales in the current price period.

42
43 As floated in the discussion paper, and as floated by
44 the councils, we think there is merit that if those
45 forecast water sales differ by more than 10 per cent as a
46 result of the timing of water restrictions, we think it
47 would be appropriate to make an adjustment in the next

1 determination.

2
3 I am not particularly excited one way or another about
4 the length of the next determination period. We note that
5 the tribunal is proposing a four-year determination and
6 that that is supported by the two councils. Providing that
7 the tribunal can be satisfied that the forecast water sales
8 by the councils are accurate, we think the four-year period
9 would be fine and we would have no objection to that.

10
11 As regards the price structures themselves, we believe
12 that the councils should be moving towards an inclining
13 block tariff approach for pricing. It was something that
14 the councils floated in their submissions to the previous
15 determination. We note that there does not appear to have
16 been a great deal of work presented in the current
17 submissions on developing such an approach. We think
18 inclining block tariff pricing has a role to play in
19 targetting discretionary water use and we would urge the
20 tribunal and the councils to investigate the suitability of
21 an inclining block tariff approach to the councils more
22 fully.

23
24 We certainly support the approach of reducing the
25 current level of fixed charges in favour of an increase in
26 usage charges to provide a stronger resource conservation
27 signal but also to give customers more control over the
28 size of their bills. It is a recurring problem with water
29 utilities that the size of fixed charges provides a major
30 disincentive for people to invest in water efficiency
31 because the return that they will get in terms of their
32 bill is relatively minor when compared with the part of
33 their bill, the fixed charges, that they have no control
34 over, so we urge the tribunal to continue the process of
35 price reform to reduce fixed charges.

36
37 I might say in relation to scarcity pricing, which is
38 an issue the tribunal is considering, we do not see any
39 particular merit in applying scarcity price to Gosford and
40 Wyong councils. It is an approach which probably has more
41 validity to systems that have little or no storage and
42 essentially operate as run of river systems.

43
44 In the context of a supply system which has a
45 considerable degree of storage, we think that there is
46 little justification in not saving water even in times of
47 plenty to store water for the times of lower rainfall. So

1 we do not see the merit in adopting scarcity pricing from
2 that point of view.

3
4 It also needs to be pointed out that scarcity pricing
5 essentially enables some customers, more affluent
6 customers, to buy their way out of the obligation of saving
7 water in a way that other customers would not be able to
8 do. And we see the use of water restrictions in times of
9 scarcity as a more equitable approach for distributing the
10 burden of water conservation but also, as noted by the
11 tribunal in its discussion paper, there has been a
12 generally high level of acceptance by the community of the
13 need for and the logic of water restrictions.

14
15 I would also make the point that history has shown
16 that when water restrictions are put in place, that
17 customers respond well in terms of their water use
18 behaviours, and that that response tends to be enduring, so
19 even after restrictions are lifted customers' behaviour
20 tends to be at a more responsible level and a lower level
21 of water use than prior to restrictions being imposed.

22
23 That brings me to the issue of wastewater charges. We
24 think that there should be a two-part component to
25 wastewater charges for both residential and non-residential
26 customers. I have read enough IPART discussion papers and
27 price determinations to know the tribunal is not well
28 disposed to that approach. Nevertheless, part of my job
29 description is tilting at windmills, so I will make the
30 argument again.

31
32 Firstly, we think that it does provide a stronger
33 resource conservation signal. I understand the tribunal's
34 view that that was more appropriately done via water prices
35 but I think that is a somewhat narrow view. The costs of
36 wastewater charges and the impacts of sewerage disposal are
37 volume related and certainly there is a benefit in
38 providing people with an incentive to use less water, not
39 just from a water conservation point of view but from the
40 point of view of reducing the impact on receiving waters
41 that receive effluent discharge.

42
43 We acknowledge that it is not a perfect system when
44 you are unable to meter contributions to the sewerage
45 system and that using of discharge factors such as is
46 currently done for Hunter Water is not perfect, but we do
47 believe it is superior to simply relying on a single fixed

1 charge for wastewater services and a more appropriate
2 reflection of the environmental costs of discharging
3 effluent into the environment.

4
5 I would make that point in relation to stormwater as
6 well. We would like to see a principle adopted with
7 stormwater charges of using a two-part tariff whereby there
8 is an assessment made of the contribution, I guess from
9 land area as much as anything, that properties provide to
10 the stormwater system.

11
12 One of the benefits of adopting such an approach would
13 be that you could factor in discounts for anything that
14 reduces the contribution of a property to the stormwater
15 system such as water sensitive urban design. That would
16 provide a strong incentive for developers to embrace water
17 sensitive urban design if it was reflected in developer
18 contributions, but it would also provide an incentive for
19 customers to embrace such options as rainwater tanks, which
20 reduce their discharge to the stormwater system.

21
22 So we think that there has been considerable progress
23 on price reform for Gosford and Wyong councils in recent
24 years. We think there is a long way to go and we urge the
25 tribunal to continue that approach. And we certainly urge
26 the tribunal to reject Tillegra Dam as an option for the
27 Central Coast.

28
29 THE CHAIRMAN: Thank you very much for the very
30 comprehensive presentation. I suspect it has anticipated a
31 number of our questions, but we will probably ask some of
32 them anyway.

33
34 MR MARTIN: I am sure you will not let me off the hook.

35
36 THE CHAIRMAN: Over to the secretariat.

37
38 MR WARNER: Leigh, your submission notes that TEC
39 believes
40 that the Mardi to Mangrove link is not necessary if more
41 effort is put into recycling, stormwater harvesting, demand
42 management, et cetera. Do you have any evidence to suggest
43 that recycling and stormwater harvesting are more cost
44 effective than the Mardi to Mangrove link?

45
46 MR MARTIN: I might say that that statement refers to a
47 comparison of the Mardi-Mangrove pipeline with the major
recycling options that were provided in the WaterPlan 2050

1 strategy. My evidence is the information that was
2 presented in WaterPlan 2050, which clearly indicated that
3 on the basis of capital cost, on the basis of cost per
4 kilolitre and on the basis of securing supply, the period
5 for which supply is secured, the recycling option, was a
6 superior option to the Mardi-Mangrove pipeline.
7
8 One of the beauties of the recycling option and one of
9 the reasons I found it hard to understand why the councils
10 would not have pursued it was that I expect that there is a
11 current political barrier. I think it is more of a
12 political barrier in the minds of politicians than in the
13 minds of voters towards indirect potable reuse. Given it
14 already happens in Richmond and Windsor, I think it is an
15 imagined barrier rather than a real one.
16
17 The options that were available to the council were
18 initially an environmental flow substitution into Wyong
19 River, which could easily have been, at some point in time,
20 enhanced into an indirect potable reuse option by Mardi and
21 Mangrove dams. That is my evidence; it is the evidence
22 that the councils provided in their WaterPlan 2050
23 strategy.
24
25 I might also point out that, in determining future
26 options for securing supply for the Central Coast beyond
27 2050, those recycling options remain available and in 30,
28 40 or 50 years time, they will be a superior approach to
29 Tillegra Dam.
30
31 MS GARNIER: In your submission, in addition to your
32 presentation, you discussed the merits of introducing an
33 inclining block tariff. To quote your submission:
34
35 It is to provide a strong incentive for
36 high volume users to moderate non-essential
37 water use.
38
39 However you contrast that with the fact that you see:
40
41 ... little merit in providing scarcity
42 pricing to Gosford and Wyong councils.
43
44 Can you explain to us the differences and distinctions you
45 draw between those two approaches? If your preferred
46 option of an inclining block tariff was introduced, how
47 would you propose that the user charge would be calculated?

1
2 MR MARTIN: I am not sure what you mean by how would it
3 be calculated. Do you mean at what point would the step
4 point apply?
5
6 MS GARNIER: What would you base the kilolitre rate on?
7
8 MR MARTIN: I couldn't give you a particular figure. I do
9 not have the Tribunal's resources to do that. I think the
10 general principle that would be applied is that a second
11 tier price should attempt to target discretionary water
12 use.
13
14 I recognise that, in the current environment with the
15 high level of water restrictions, there is not a high level
16 of discretionary water use. However, I think it is pointed
17 out in the council's submissions that as a result of the
18 Mardi-Mangrove pipeline, they consider that there is a
19 fairly high probability of relaxing the current level of
20 restrictions by 2011. I think the actual figure was a
21 50 per cent probability of the system recovering to 47 per
22 cent by 2011. Based on this, they estimated the
23 restrictions will be progressively eased until 2011, 2012
24 when they will be removed.
25
26 There is a reasonable chance that within the next four
27 years we could see an easing or a complete relaxation of
28 water restrictions for the Central Coast. In that
29 environment, we think that the inclining block tariff is an
30 appropriate mechanism for targeting discretionary water
31 use.
32
33 MS GARNIER: How would that differ from the scarcity
34 water pricing scheme?
35
36 MR MARTIN: I guess scarcity pricing still applies to
37 discretionary and non-discretionary water use. In a time
38 of scarcity if you do not have water restrictions in place,
39 the water that you drink, the water that you bathe in,
40 under scarcity pricing, is being charged at the same rate
41 as the water that you water your garden or wash your car
42 and --
43
44 THE CHAIRMAN: I am sorry; I don't think that's right.
45 Every scarcity pricing proposal that I am aware of has a
46 base level, which is what they call lifeline or basic
47 level, which is in no way different to what you have under

1 an inclining block tariff.
2
3 MR MARTIN: Okay, I guess the other difference is that a
4 scarcity price would apply only at a particular point in
5 time; whereas the inclining block tariff would apply at all
6 times. As I have said, in a situation where you have a
7 significant quantity of stored water we see a lot of merit
8 in providing an incentive to reduce discretionary water use
9 even in times of abundant rainfall.
10
11 MR WARNER: You have argued for a sewerage usage
12 charge for both residential and non-residential properties. We
13 have had expressed to us from time to time that a
14 residential sewerage charge may encourage people to bypass
15 the sewerage system to save money, even if that is
16 ill-informed, I guess. Would you like to comment on that
17 and how would you go about educating people about a
18 system like this?
19
20 MR MARTIN: I am not sure that you can educate someone
21 who is prepared to bypass the sewerage system and discharge
22 their effluent into the gutters or a creek. I would
23 suggest that it is a role for utilities to enforce the
24 appropriate connections of water and sewage to their
25 sewerage systems as they are required to do now. It is a
26 problem that many utilities currently have with people
27 bypassing the stormwater system by putting their stormwater
28 into the sewerage system. There are instances of illegal
29 connections. I know, for instance, that Sydney Water has,
30 from time to time, undertaken smoke tests to identify where
31 people's stormwater is connected to the sewerage system. I
32 would see it as a normal function of a water utility to
33 make sure that those things do not happen.
34
35 I also do not think that there would be a large number
36 of people in the community who would be irresponsible
37 enough to seek to bypass the sewerage system and to expose
38 themselves and the rest of the community to the health
39 risks that that would entail.
40
41 MS GARNIER: My next question slightly contradicts part
42 of your presentation, but I will ask it anyway and then
43 we can discuss it. Given that we work with the councils to
44 work out their operating costs, we have identified that a
45 high proportion of the councils' costs in providing
46 sewerage services are fixed costs, therefore, how do you
47 think that high, or any, usage costs for sewerage can be

1 justified?
2
3 MR MARTIN: I am sorry, I am not quite sure what you mean.
4
5 MS GARNIER: The costs that the councils are incurring are
6 predominantly fixed costs. Their volumetric costs for
7 sewerage are very low.
8
9 MR MARTIN: I guess this comes to a philosophical approach
10 of what is the most appropriate way of recovering revenue.
11 We generally take the view that we think that some of the
12 fixed costs that councils and water utilities have both for
13 water and sewerage services should be recovered by
14 volumetric prices in order to reduce the level of fixed
15 charges.
16
17 I understand why utilities resist that because it
18 exposes them to a higher degree of volatility in their
19 revenue; nevertheless, we think that is the price you pay
20 for providing customers with greater control over their
21 bills. I understand the more economically pure approach is
22 that fixed costs are recovered by fixed charges and that
23 the volumetric costs are recovered by volumetric charges,
24 but we think that application of that principle in its pure
25 form has practical limitations.
26
27 MR WARNER: I think you have answered the next question
28 that I was going to ask, so I will ask an alternative one.
29 This deals with stormwater capture versus stormwater
30 cleaning up. It strikes me that stormwater is not only a
31 resource that people can actually capture and use in their
32 gardens but also is what puts flow into local creeks and
33 rivers and the like. How do we strike a balance,
34 notwithstanding fact that not a lot of stormwater capture
35 takes place?
36
37 MR MARTIN: I think it is important to bear in mind that
38 the result of urban development is that, in urban
39 environments, run-off rates are significantly increased
40 over what they naturally would be because of the high
41 proportion of impervious surfaces - roofs, footpaths,
42 roads - and that those impervious services increase the
43 volume of stormwater. They also decrease the quality of
44 stormwater because there is less opportunity for water to
45 be filtered through the soil and vegetation.
46
47 In an urban environment, I don't think you construe it

1 as taking flows away from creeks and streams. I think it
2 is more a context in the urban environment that we have
3 changed the natural water balance in the urban situation
4 and that harvesting and capturing of stormwater seeks to
5 redress some of that modification.

6
7 THE CHAIRMAN: I might ask a couple of questions. In your
8 presentation, Leigh, you invited the tribunal to factor in
9 demand management measures in assessing the future revenue
10 stream. First a point of clarification: did you have in
11 mind that we should factor in more demand management
12 measures than have been proposed by the councils? If so,
13 or even in regard to the councils' proposals, should we
14 factor in demand management measures if increasing the
15 supply is cheaper than reducing the demand?

16
17 MR MARTIN: With regard to the first part of that
18 question, I think it is appropriate for the tribunal to
19 determine whether the councils have adequately pursued
20 demand management and all the options that are available to
21 them. To the extent that they are seeking prices based on
22 a certain level of forecast water sales, the tribunal
23 should satisfy itself that that is an appropriate level and
24 that councils have done everything they can to ensure that
25 that level of water consumption is not higher than it could
26 otherwise be.

27
28 In relation to your point about whether it is cheaper
29 to augment supply or cheaper to go down the demand
30 management path, that really becomes a question of how do
31 you factor in environmental costs of supply augmentation
32 versus the environmental benefits of avoiding that
33 augmentation of supply and of reducing demand?

34
35 In making those considerations, I think the tribunal
36 needs to take into account non-financial costs as well.
37 Obviously that is a harder thing for an economic regulator
38 to do, but we think it is an essential part of what the
39 tribunal is required to do under its legislation.

40
41 THE CHAIRMAN: I might add that I agree that, under our
42 legislation, we are required to have regard to
43 environmental costs.

44
45 My next question is: you said this the Mardi-Mangrove
46 pipeline augmentation was better than Tillegra. You said
47 it was better in costs - better in terms of financial cost

1 and environmental cost. In terms of the financial cost as
2 I understand it, the Commonwealth Government is making a
3 significant financial contribution to the Mardi-Mangrove
4 augmentation. When you made that comparison of the
5 financial cost of Tillegra versus Mardi-Mangrove, how did
6 you allow for the Commonwealth Government's contribution?
7 In other words, the financial cost can be substantially
8 lower because they are getting some grant money from the
9 Commonwealth, but the economic cost does not recognise that
10 subsidy.

11
12 MR MARTIN: I direct the attention of the tribunal to the
13 draft WaterPlan 2050 strategy which the councils produced.
14 I would encourage the tribunal to obtain a copy of the
15 draft WaterPlan 2050 strategy. It pre-dates the
16 contribution from the Commonwealth and simply looks at the
17 absolute costs and benefits of the various options. I
18 would encourage the tribunal to obtain those documents from
19 the councils because I think they would answer your
20 question.

21
22 MR COX: I would like to start off with recycled water
23 schemes. As you have recognised, the Mardi-Mangrove scheme
24 is going ahead and is a reasonable option. As you also
25 recognise, once it has been completed there will be more
26 water available. I am on the same wavelength as Mike here.
27 To what extent should we be funding, I suppose, recycled
28 water schemes if they are more expensive than making water
29 available through the Mardi-Mangrove link and what is the
30 justification for that?

31
32 MR MARTIN: Whilst the Mardi-Mangrove pipeline is a key
33 component of the WaterPlan 2050 strategy, it is not the
34 sole component; the councils' effort on water recycling and
35 demand management are a part of that overall strategy. The
36 benefits of recycling in terms of the reduction of
37 discharges to receiving waters and the impacts on the
38 marine environment need to be considered as well.

39
40 MR COX: It does seem to me there are some quite expensive
41 recycling schemes being proposed and how should we be
42 thinking --

43
44 MR MARTIN: Certainly our view is that, in general, you
45 should exhaust all the cost effective demand management
46 recycling options before you go to augmentation. We are
47 not convinced that is how water is being managed in this

1 state at present.
2
3 If we move out of Gosford-Wyong for a moment, one of
4 the arguments that the New South Wales Government and
5 Sydney Water made for pursuing a desalination plant was to
6 take the example of how much it would cost to send recycled
7 effluent from the North Shore outfalls to Warragamba Dam.
8 Obviously that will not stack up well against desalination,
9 but it is the option you would choose if you were seeking
10 to find a recycling option that cost more than a desal
11 plant; whereas there were other much cheaper recycling
12 options available.
13
14 Not all recycling options would be viable, but certainly
15 the WaterPlan 2050 recognised a number of them. Given
16 that the Mardi-Mangrove Dam connection is proceeding,
17 we will not see those major recycling projects proceeding
18 in the next 20 or 30 years, but I would make the point that
19 they are still on the table as an alternative to
20 Tillegra Dam in 30 or 40 years time
21
22 MR COX: But in the short term, you think that the smaller
23 and cost effective ones should go ahead?
24
25 MR MARTIN: I think they certainly should, yes.
26
27 MR COX: And in deciding what they are, we should look at
28 the cost of Mardi-Mangrove and compare that to the cost of
29 the recycling options?
30
31 MR MARTIN: Yes, that's right, as they are part of the
32 councils' overall strategy. The councils' strategy is
33 not solely the Mardi-Mangrove pipeline. It is the
34 Mardi-Mangrove pipeline, plus a range of other initiatives.
35
36 MR COX: Thank you for that. I think I want to raise the
37 inclining block tariff again, if I may. Once again the
38 context is that there will be, as you would recognise,
39 plenty of water available once the Mardi-Mangrove
40 connection is completed.
41
42 Let us assume that we charge water at a variable price
43 that reflects all the relevant costs. Let us assume that
44 is the first tier. To have a second tier in that context,
45 a second higher tier, implies that some people will be
46 paying more than the costs of making water available to
47 them. Why do you think that would be justified in the

1 circumstance where water is generally available?
2
3 MR MARTIN: You would factor it into the overall costs. I
4 think there is merit in providing people with a discount
5 for the water use that they cannot control, that is the
6 non-discretionary water use, if the water use they can
7 control, the discretionary water use, is charged at a
8 higher rate. It may require, in terms of covering the
9 overall costs, a shifting of some of the burden towards the
10 discretionary water use.
11
12 I might add that we also envisage that, over time, a
13 step point in an inclining block tariff system is something
14 that might change. As water use becomes more efficient,
15 the point at which you consider discretionary water use
16 begins may change
17
18 MR COX: It does raise difficulties in deciding what is
19 discretionary water use and what isn't, which, in practical
20 terms, can be pretty difficult.
21
22 MR MARTIN: Yes.
23
24 MR COX: This is a left-field question, but I would like
25 to ask it. As you would have heard this morning, different
26 approaches have been adopted by Gosford and Wyong
27 councils. Gosford City Council proposes to have a rate of
28 return in its prices; Wyong Shire Council doesn't. Do you
29 think either of those approaches are to be preferred on
30 economic and environmental grounds; and, if so, why?
31
32 MR MARTIN: To be perfectly honest, I do not know. I
33 would have to be given the opportunity to pursue the
34 various council's arguments in more detail to form a view
35 on that. Just on the basis of what we heard this morning,
36 I am not in a position to give an answer to that.
37
38 THE CHAIRMAN: If I were to rephrase the question to say
39 that one was full cost recovery and one wasn't, how would
40 you answer it then?
41
42 MR MARTIN: The general principle is that utilities do
43 need to recover their costs. If they are not recovering
44 their costs, then they must be obtaining their revenue from
45 somewhere else, by definition. Either that, or they are
46 running at a loss.
47

1 THE CHAIRMAN: What I am also getting at is if you do not
2 have the full cost recovery, you are likely to get people
3 consuming more of the water.

4
5 MR MARTIN: That is very true, and not just that: if you
6 do not have full cost recovery, you are likely to see a
7 deterioration of assets as utilities lack the revenue to
8 appropriately protect their assets in the longer term.
9 When we are considering that the environmental and social
10 costs of asset failure - for instance, bursts in sewerage
11 mains can be quite severe - that is something that needs to
12 be taken very seriously.

13
14 MS KRIEGER: The only thing I would add to that is what
15 you have just said has some implications for your preferred
16 inclining block tariff pricing because if you supply the
17 essential water component at a discount, as you have
18 suggested, that has water utilities walking a fine line
19 between solvency asset maintenance and all those other
20 obstacles.

21
22 MR MARTIN: Yes, and we recognise that not just with an
23 inclining block tariff approach but with the general
24 approach of shifting the emphasis away from fixed charges
25 to volumetric charges, it exposes utilities to a higher
26 degree of risk. We do see merit in having mechanisms to
27 adjust prices and adjust revenue in relation to that.
28 We know that the tribunal has considered the use of
29 so-called D factors in the past and we think there is
30 merit in further investigation of those types of approach.

31
32 THE CHAIRMAN: I think we might terminate this session
33 now. Thank you very much for a quite stimulating
34 presentation, if I may say so. We are now due to have
35 lunch. We will aim to resume at 1.30.

36
37 LUNCHEON ADJOURNMENT

1 UPON RESUMPTION:

2
3 PUBLIC INTEREST ADVOCACY CENTRE

4
5 THE CHAIRMAN: We will resume and I would ask Mr
6 Ludbrooke from the Public Interest Advocacy Centre to give
7 his presentation. You have the hardest job of the afternoon,
8 being the first speaker after lunch, with the possible
9 exception of the last speaker.

10
11 MR LUDBROOKE: Thank you very much and thank you for
12 the opportunity to come and talk today. It is much
13 appreciated.

14
15 I will start with a very quick introduction. The
16 Public Interest Advocacy Centre is an independent
17 non-profit law and policy organisation that seeks to make
18 strategic interventions on issues of public interest.
19 Amongst other programs, it auspices the energy and water
20 consumer advocacy program, which engages in advocacy on
21 behalf of residential consumers of energy and water across
22 New South Wales, so it is in that capacity that I am here
23 today.

24
25 PIAC's primary concern relates to the impact of price
26 increases on low income and other disadvantaged consumers
27 in the area. At the risk of doubling up on some of what
28 Dev has already said today, that is what I will be focusing
29 on.

30
31 We know obviously that Gosford Council has suggested
32 that its price path will increase the average water bill by
33 about 37 per cent and that Wyong has suggested a 19 per
34 cent increase. By our way of thinking, a lot of residents
35 in the area will be able to handle these price increases,
36 it won't be too much of an imposition, but there certainly
37 is a subsection of the community who will experience
38 difficulties on account of price increases.

39
40 When you start to look at some of the more
41 marginalised areas of the community, you see these sorts of
42 adverse impacts. I am talking specifically about low
43 income earners, about people on a disability support
44 pension, on a frail age pension, on caravan park residents
45 for example, and others on low incomes.

46
47 PIAC understands that many such households have little

1 disposable income available to them. So when prices go up,
2 many can and do struggle to make ends meet. This can mean
3 difficulty paying bills and in extreme instances can lead
4 to flow restrictions or indeed disconnection from
5 utilities.

6
7 More often, as Dev pointed out, people do actually pay
8 their water bills but there are other things that they go
9 without, so it may mean that there are a few fresh fruit
10 and vegies in their shopping baskets every fortnight or
11 that new school shoes that were need the purchase is put
12 off for a couple of months. So the first point is that the
13 price increase will adversely affect some low income and
14 other disadvantaged consumers in the area.

15
16 We also understand that the proposed price increase
17 may end up being a little greater than forecast if Central
18 Coast residents do have to pay any of the costs for the
19 Tillegra Dam and also if they have to pay additional
20 operating costs on account of the carbon pollution
21 reduction scheme, which should be in place in 2010, maybe
22 2011, who knows. But the intention is for it to be in
23 place over the course of this current determination so it
24 is likely to have an impact on the price and thus an impact
25 on people's capacity to pay their water bills.

26
27 It is also worth noting that the proposed price
28 increase follows significant price increases in other goods
29 and services in our view, goods and services likely to be
30 prominent in low income household budgets, like health care
31 costs, transport costs and also housing costs, so that is I
32 suppose just to put it in context, and also to suggest that
33 the proposed increases come at a time when recent
34 projections from the New South Wales Treasury suggest that
35 growth will be slower and unemployment will be on the rise.

36
37 The projections in the mini budget suggest that gross
38 state product will be at 1.25 per cent in 08/09 and 1.5 per
39 cent for 09/10 and unemployment at 5.25 per cent and then
40 5.75 per cent for the same years. More people potentially
41 will be out of work in the area and living on reduced
42 incomes and will in turn struggle with existing expenses
43 and certainly with increased water bills as well.

44
45 Our point is that there are some low income households
46 already experiencing some financial difficulties and likely
47 to face further challengers over the course of the

1 determination and that a 37 per cent increase in the case
2 of Gosford and 19 per cent in the case of Wyong will
3 adversely affect some of those low income consumers.

4
5 With this in mind, we are obviously keen to keep the
6 price increase to a minimum, and we have a couple of points
7 to raise on this front. The first is in relation to the
8 drainage charge in Wyong. We understand that the proposal
9 is for a brand new drainage charge. I have just had a
10 conversation with a couple of guys from Wyong Council to
11 try to clarify this and I may be barking up the wrong tree
12 on this, but it was our understanding from having a look at
13 the submissions that the council is proposing a \$80
14 drainage charge but it seemed to us that this was higher
15 than that which was in place in other areas.

16
17 The Sydney Water drainage charge seemed to us to be
18 about \$45, Hunter Water about the mid 60s and Gosford the
19 mid 60s as well. And it also seemed to us that the council
20 was proposing to cut about \$63 worth of drainage charges
21 from its water service and sewerage service charges in
22 order to impose the new \$80 drainage charge, so our initial
23 thought seemed to be that some consumers could be worse off
24 under the plan and we would ask IPART to have a look at
25 that.

26
27 The second point we raised in our submission I would
28 like to raise again today, is about the carbon pollution
29 reduction scheme. Gosford Council mentioned that it seeks
30 to pass through the costs of the CPRS to consumers as it
31 comes through. We do not necessarily think this is an
32 appropriate strategy. The idea of the carbon pollution
33 reduction scheme obviously enough is to reduce emissions
34 and we think that Gosford and Wyong councils should be
35 encouraged to do this in the same way as consumers.

36
37 Perhaps a better idea would be to share the costs of
38 the scheme between councils and consumers, so that there is
39 some incentive for both consumers and councils to reduce
40 their energy emissions through the carbon pollution
41 reduction scheme.

42
43 Although it has not been indicated that compensation
44 will be provided to councils on account of increased costs,
45 if that were to be the cost we would argue that the pass
46 through of any CPRS costs should be avoided if compensation
47 is being provided through the Federal Government.

1
2 The third point we would like to raise about keeping
3 prices to a minimum, or related to that, is the issue of
4 completion of capital projects. I have to confess I am new
5 to this process so perhaps this is par for the course, but
6 I was surprised to learn that the Central Coast Joint Water
7 Supply Authority had only reached three of eight IPART
8 output measures over the course of this determination.
9 Acknowledging that there is still a little bit of time left
10 in the course of this determination, it didn't seem to me
11 that a lot of progress had been made on certain projects
12 that had been identified as necessary previously.
13
14 This made us wonder whether councils were likely to
15 complete the proposed capital works for the period ahead.
16 We then stumbled across a reference from previous IPART
17 consultants that had expressed doubt about the capacity of
18 councils to complete some of the capital expenditure
19 programs that they had proposed. I do not know if IPART
20 can take this into consideration when considering the
21 merits of councils' submissions but we would urge the
22 tribunal to do so if possible.
23
24 These are our three points related to the necessity of
25 the magnitude of the price increase. We do, of course,
26 acknowledge that the price of water is going to go up and
27 in response to that we think it is appropriate that there
28 is an adequate safety net in place to assist low income
29 consumers in particular to cope with these increased
30 prices.
31
32 We were a little disappointed that there was not a lot
33 of information in the submissions from Gosford and Wyong
34 councils about the sorts of programs in place to assist low
35 income consumers to deal with the increase in the price of
36 water. I thank Gosford Council for providing a little bit
37 of information today, but we have developed I suppose a few
38 options that we think would be appropriate.
39
40 The first is to do with the pensioner concession. We
41 understand that the pensioner concession rate is set by the
42 Local Government Act but we are concerned, as is NCOSS,
43 that the utility of the pensioner concession has been
44 declining on account of that cap. My understanding is that
45 Central Coast pensioners can receive a rebate of about \$175
46 per year. \$87 is the cap for sewage and \$87 is the cap for
47 water.

.14/11/08 78 PIAC

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1
2 We had a chat to Sydney Water about the rebate
3 available in their neck of the woods and the indication is
4 that pensioners can receive 100 per cent rebate on the
5 water service charge of \$75 and an 83 per cent rebate on
6 the \$480 sewerage charge, so this means that a pensioner in
7 Sydney is eligible for a rebate of about \$470 per annum,
8 but on the Central Coast you just get \$175, so we don't
9 think this is particularly fair.
10
11 We note that Gosford Council requested that IPART - or
12 brought to the attention of IPART that it could not do
13 anything about it but they were not adverse to the idea of a
14 change being made, so we would request IPART recommend
15 a change to the Local Government Act if that is indeed
16 something you can do to increase the pensioner rebate.
17
18 We are a fan of CentrePay as well, where residents can
19 elect to have a small amount of their Centrelink benefits
20 automatically allocated to pay their water bills
21 fortnightly. We think this is important because for some
22 low income earners, or if you don't have a lot of income
23 coming in or a lot of savings at your disposal, an
24 unexpected cost, be it health related or family related,
25 can impair your ability to pay your utility bills, so we
26 think this is a good solution for this sort of problem. It
27 reduces the likelihood that there will be problems like
28 that and assists people who would otherwise experience
29 difficulty in managing their financial affairs to pay their
30 bills. We think it is a worthwhile endeavour.
31
32 We also support the availability of vouchers to assist
33 customers experiencing financial crisis or hardship in
34 paying their bill. Again, vouchers are available to
35 residents in Sydney and the Hunter through the payment
36 assistance scheme and we think it would be a worthwhile
37 initiative for them to be available in the Central Coast as
38 well.
39
40 As with NCOSS, we are a fan of the no interest loans
41 scheme. We would like to see the scheme in place in this
42 neck of the woods. It assists residents to purchase water
43 efficient appliances like washing machines and also cope
44 with unexpected expenses like plumbing repairs.
45
46 The last thing we would like to see, again the same as
47 NCOSS I have to say, is that we promote the idea of both

.14/11/08 79 PIAC

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1 councils putting their hands up to join the Energy and
2 Water Ombudsman as well. We think they provide a fair,
3 timely and independent complaints mechanism and that it
4 would be in the interests of local residents for both
5 councils to join the scheme.

6
7 These are the sorts of things that PIAC thinks would
8 be useful for low income residents in the local area and
9 that is about all I have today.

10
11 THE CHAIRMAN: Thank you very much. I might just take
12 the opportunity to allay your concerns on one point. You
13 raised questions about capital programs and the capacity of
14 councils to deliver on their capital programs. That is a
15 concern of IPART. You may even recall the secretariat
16 pressed the councils on exactly that point earlier in the
17 day. That is part of our role and function, to assess the
18 prudence and efficiency of capital expenditures, but also
19 just the capacity for it to be delivered.

20
21 MR WARNER: In your submission you suggested a number
22 of measures to help address hardship such as vouchers, water
23 audits and no interest loans. This is a multiple barrel
24 question: how do you propose they be funded; and is it
25 your intention that the costs of those programs be shared
26 across everybody in the Central Coast?

27
28 The second part of that is that I think in your submission
29 you also say that low income households have low
30 discretionary water demand and given that, and flowing from
31 that the small potential gains that you are likely to
32 achieve from water audits, will they be worth councils
33 undertaking expenditure on those sorts of items.

34
35 MR LUDBROOKE: On how they would be funded, we would
36 say jointly funded would be fantastic. We would be happy
37 for the New South Wales Government to fork over some dollars
38 to assist in funding some of these programs but we would
39 also see that council would have a role in providing some
40 funding for these sorts of hardship programs as well.

41
42 We acknowledge that this might mean a small increase
43 in bills across the board, that all consumers might have to
44 pay a little bit more on account of this, but this is for a
45 minority of residents in the local area so we would not
46 imagine, I certainly don't have a figure unfortunately,
47 that it would be too costly.

1
2 I think that it would be the responsible course of
3 action to provide these sorts of supports and I don't think
4 it would be too much of an imposition for all consumers to
5 pay a little bit more to ensure that those people
6 experiencing hardship are able to manage their bills.

7
8 On the subject of water audits, would you mind
9 repeating that question?

10
11 MR WARNER: Is a water audit going to be worth chasing
12 small amounts of water given that you have said that low
13 income households have low discretionary water usage?

14
15 MR LUDBROOKE: We could make those water audits
16 available to households who have high water use. I am not
17 by any stretch of the imagination saying that every single low
18 income household should be eligible for a water audit or
19 that every single low income household really uses a
20 minimum amount of water. Where we have got a household
21 that has a large bill, has indicated they are experiencing
22 difficulty paying that bill and also has a high level of
23 water usage, then a water audit might be appropriate in
24 those sort of circumstances.

25
26 MS GARNIER: Still an aspect of your submission was that
27 you state that the construction of Tillegra Dam in the
28 Hunter will improve water security on the Central Coast,
29 therefore implying that Central Coast residents are gaining
30 a benefit from Tillegra. It has a high initial capital
31 cost. Do you have any views on how the costs may be
32 allocated between the users?

33
34 MR LUDBROOKE: I don't. What it would have been better
35 to have said in the submission was that councils have put
36 together their submissions indicating a variety of capital
37 programs or capital works to secure the water security of
38 the area, then we have the Tillegra Dam that was announced
39 by the New South Wales Government as well, and perhaps
40 PIAC's point is that both of them together might end up
41 providing some sort of a super-duper solution that is not
42 actually necessary, a gold plated solution.

43
44 We are keen to make sure that the price increases are
45 kept to a minimum. Perhaps the capital works suggested by
46 local councils are appropriate full stop and there is no
47 need for councils and residents to access any water through

1 the Tillegra Dam. Perhaps the Tillegra Dam, in the event
2 it goes ahead, it negates the need for some of the
3 investments that councils have proposed. How it would be
4 paid for I don't know.

5
6 MR WARNER: You stated in your submission that you are
7 against the removal of water restrictions. However, would
8 you concede that in times when water becomes more plentiful
9 that there is scope for easing those restrictions given
10 that people might be prepared to pay for those?

11
12 MR LUDBROOKE: I would. If you ask most people, the idea
13 of easing water restrictions would be quite appealing. I
14 don't think there are two ways about that, particularly
15 where there is plenty of water available. There is plenty
16 of evidence around these days on account of climate change
17 to suggest that we have some rainfall patterns to be
18 concerned about.

19
20 Much of New South Wales is in drought and I think it
21 is appropriate to develop a culture of conservation by and
22 large. For that reason we do support restrictions
23 generally. We think they are a good way to assist
24 households to curb water consumption. But it does not
25 necessarily mean that we think they should be ramped up all
26 the time. There is certainly room for easing restrictions
27 sometimes, yes.

28
29 MS GARNIER: My next question leads quite nicely on from
30 that because in conditions where there is no water scarcity
31 at all, which water restrictions would you believe should
32 stay in place in the form of say permanent water
33 restrictions?

34
35 MR LUDBROOKE: To be perfectly honest, I don't have a
36 level of knowledge to be able to answer that question so I
37 might let that one through to the keeper.

38
39 MR WARNER: An alternative to restrictions that is
40 sometimes suggested is scarcity pricing and as the Chairman
41 pointed out earlier scarcity pricing would involve some
42 sort of lifeline allowance, but above that you would seek
43 to have price moved to balance supply and demand. What do
44 you think about that?

45
46 MR LUDBROOKE: PIAC has not been in favour of scarcity
47 pricing in the past and there has not been any change in

1 its view. One of the problems with scarcity pricing is
2 that there is little incentive as I understand it for high
3 income earners to reduce their consumption of water. If
4 you can afford to pay for water, whether there is a lot
5 available or not a lot available, you can and possibly will
6 do so.

7
8 We are also not entirely sure that the price signals
9 are particularly strong in that people use water every day
10 but you get your bill every quarter. If you have got a few
11 dollars in your back pocket and are able to afford it, I
12 suppose you will not pay too much attention to an increase
13 in the price.

14
15 The only other thing I can say about that I suppose is
16 that we do think that consumers have responded favourably
17 to water restrictions. There seems to be numerous accounts
18 in various local councils and water authorities to suggest
19 that demand has reduced quite substantially on account of
20 water restrictions so we think they are an appropriate
21 response.

22
23 THE CHAIRMAN: Do you have any evidence that high
24 income earners don't respond to price signals? When the
25 price of petrol goes up, high income earners do seem to
26 change their car preferences like other people.

27
28 MR LUDBROOKE: To be honest, no. But if you are a low
29 income earner and you didn't have a lot of money available
30 and the price of petrol goes up, it does have an impact on
31 how much driving you actually do. That may not actually be
32 the case for a high income earner. You might complain
33 about the increased cost of petrol and you might be in a
34 position to make some decisions about changing the kind of
35 car you purchase on account of it but you are still
36 possibly going to keep using the car exactly the same way
37 because you can afford to do so.

38
39 THE CHAIRMAN: That is a hypothesis. Even if the
40 hypothesis is correct, it still means that whilst the price
41 elasticity of demand may be higher for a low income earner
42 than it is for a high income earner it does not strike me
43 that it is necessarily negligible for a high income earner.

44
45 MR LUDBROOKE: I am afraid I don't have any evidence.

46
47 THE CHAIRMAN: We are talking about now what is

1 discretionary water usage because the lifeline allowance is
2 meant to cover the non-discretionary. Even with a low
3 income earner, we are talking about what would be described
4 as discretionary water usage.

5
6 MR LUDBROOKE: Alas, I don't have any evidence. I would
7 happily take the question away and have a think about it
8 and get back to you if I could.

9
10 MR COX: I wanted to ask you about your view on the carbon
11 pollution reduction scheme where you are suggesting that
12 should not be passed through in full to customers. As I
13 understand it, the purpose of that scheme is to encourage a
14 move towards a low carbon intensive economy by
15 incorporating the costs of carbon into the prices of goods
16 and services, so by not passing this on in full you would
17 in fact be weakening the objective of the scheme.

18
19 Also, as I understand it, the Commonwealth Government
20 is prepared to compensate households for the costs arising
21 from the introduction of the scheme. In this context, I
22 would be interested in your reasons for not suggesting we
23 should pass on the costs of introducing the scheme in full
24 to water user customers on the Central Coast.

25
26 MR LUDBROOKE: Only that we think it is essential that the
27 price signal is felt everywhere. We think it is just as
28 appropriate for local councils to reduce their emissions as
29 we think it is appropriate --

30
31 MR COX: Councils will face the results of the scheme in
32 the costs of the goods and services that they purchase, so
33 it affects them just as much as households.

34
35 MR LUDBROOKE: That may well be the case but we still
36 think it is appropriate for the costs to be shared between
37 councils, between businesses, between non-government
38 organisations, government organisations and individuals as
39 well.

40
41 THE CHAIRMAN: Thank you very much, Mr Ludbrooke,
42 for your preparation.

43
44
45
46
47

1 DUNGOG SHIRE COUNCIL

2
3 MR McDONALD: My name is Greg McDonald, I am from
4 Dungog Shire Council. Our submission is really a submission
5 to IPART in respect to Hunter Water. However, some of the
6 issues in respect to the Hunter Water issues also affect
7 Gosford and Wyong and pricing, so we made a submission to
8 both. Yours came up first, so we came along today to give
9 a bit of a history of what is happening up in Dungog.

10
11 Firstly, it is probably worthwhile giving you a bit of history
12 of where Dungog sits with Hunter Water in respect to water
13 supply. The five local government areas of Port Stephens,
14 Maitland, Newcastle, Lake Macquarie and Cessnock
15 are part of the Hunter Water area of operation and in July
16 this year Dungog Shire Council, which lies immediately to
17 the north of that, became part of the Hunter Water's area
18 of operation as well. Effectively what happened was our
19 water and sewerage assets were transferred into Hunter
20 Water's ownership, so we are now a customer of Hunter
21 Water as well.

22
23 You can see Gosford and Wyong there to the immediate
24 south as well on the overhead.

25
26 Just to give you some idea, before we became a customer
27 of Hunter Water we also provided Hunter Water with
28 their water. You can see Lostock Dam to the west is not a
29 Hunter Water asset, it is owned by State Water and it
30 effectively releases flows into the Patterson River for
31 agricultural purposes. Chichester Dam is that little blip
32 up in the Chichester River up there and this will be the
33 new Tillegra Dam if and when it proceeds. Hunter Water
34 already owned Chichester Dam and this is the proposed
35 catchment and the proposed Tillegra Dam. For your
36 information, that is the Dungog township there on the
37 overhead.

38
39 We have some issues with the provision of water to the
40 Hunter and possibly the Central Coast through the Tillegra
41 Dam and one concern we have is the justification for the
42 Tillegra Dam. At present Hunter Water, through its
43 Tillegra Dam document, suggests that there are three
44 reasons: first of all, an increase in population of
45 160,000 people in the Hunter; a 10 per cent drop in
46 rainfall because of climate change - in fact, their
47 document suggests it could be either a 10 per cent increase

1 or a 10 per cent drop in rainfall but they have adopted a
2 worst case scenario; and, thirdly, a supply to the Central
3 Coast as being justification for the dam.
4
5 We don't have any serious problem with that. I will
6 not talk about the reason for or the reason why we should
7 not have the dam. I am working on the assumption that the
8 dam proceeds and if the dam does proceed how those costs
9 should be attributed. We can leave the argument for the
10 dam to another group and another stage.
11
12 If we take the three areas that Hunter Water suggested
13 as being an increase in population of 160,000, the 10 per
14 cent drop in rainfall and the supply to the Central Coast,
15 who should pay? We have an opinion on that, as most people
16 seem to do. Our opinion is that an increase in population
17 of 160,000 people in the Hunter is purely growth and should
18 be met by developer charges.
19
20 A 10 per cent drop in rainfall, though, is a drought
21 security measure that is, I guess, a "benefit" received by
22 all existing customers and should be shared amongst all
23 existing customers. We are suggesting that any costs
24 attributed to climate change should be through the usage
25 charge rather than the fixed component or the access
26 charge, so it drives a pricing change or a pricing message
27 through use of water and thus reduces that consumption.
28
29 Now we get to the controversial bit - the supply to
30 the Central Coast. If we agree that the Central Coast has
31 a need for the Tillegra Dam, then how do we charge the
32 cost? I admit that this morning we have heard enough
33 evidence to suggest that there is some argument about that
34 and whether or not Gosford and Wyong really need the
35 water.
36 It would appear from what Gosford and Wyong councils are
37 telling us that they no longer require the water for the
38 Central Coast.
39
40 The other thing is that I do not have, against here,
41 any information from Hunter Water as to what proportions
42 each of these three components make up of the total cost of
43 the dam. So it is hard to apportion costs without knowing
44 those break-ups.
45 If we work on the theory that the Central Coast is
46 still a requirement for the driver for the Tillegra Dam and
47 there is a component for capacity in the Tillegra Dam that

1 the Central Coast desires, Dungog Council is of the opinion
2 that if they are given a guaranteed supply, and I will
3 expand on that in a minute, then they should be charged as
4 a developer because they are a component of growth and they
5 are taking up a capacity within the Tillegra Dam.
6
7 However, that is only if Gosford and Wyong, or the
8 Central Coast, are given a guaranteed allocation because I
9 don't think it is fair that Hunter Water should be charging
10 a developer charge to developers and also selling that same
11 capacity to Gosford and Wyong.
12
13 My understanding from Gosford and Wyong is that they
14 are taking a flow at the moment that is not dependent on
15 Tillegra Dam. They are saying they will not need the
16 Tillegra Dam for 20 years to 30 years; so that figure there
17 may in fact be negligible. It may be nothing, if that is
18 not a driver for the Tillegra Dam.
19
20 I will jump over to some of the issues we have from
21 Dungog Council's point of view in regard to the cost of the
22 scheme. That is a summary of the schemes by Hunter Water.
23 You can see the capital cost, the operating cost and the
24 yield for each of those schemes. The Tillegra Dam, as you
25 can see, is looking at around about \$300m as the projected
26 capital cost with about \$600,000 per year in operating
27 costs.
28
29 Dungog Council has some issues in the fact that we
30 believe that there are a number of environmental and social
31 costs that have not been calculated yet and have not been
32 justified in the Tillegra Dam option. Environmental costs
33 and social costs are not included. I guess our concern is
34 that failure to include those costs in any IPART
35 determination may result in Hunter Water having a
36 justification for not including them in future pricing.
37 They were considered by Hunter Water as a means of
38 justifying each of the schemes. As I have said, as yet
39 they have not been included in their budget.
40
41 Without having huge resources at our disposal, we have
42 attempted to quantify some of these costs. Certainly
43 Hunter Water have disagreed with some of our calculations.
44 They have not provided us with any alternatives at this
45 stage, so we are relying on ours until they can provide
46 some sort of justification for our figures.
47

1 Our position at present at Dungog is that we will now
2 await the environmental assessment, which is due out prior
3 to Christmas, we understand, in order to observe Hunter
4 Water's social and environmental calculation of costs and
5 how they intend to address those.
6
7 To give you an idea of what we think the environmental
8 costs are with regards to Tillegra Dam, we believe they
9 come to somewhere in the order of \$7m per annum. They are
10 community costs associated with lost income from the
11 valley, families being displaced, secondary income from
12 those families being moved out. Those figures probably
13 have some sort of variation to them, depending on who you
14 talk to, but we have tried to adopt conservative figures
15 and minimums where we were not sure.
16
17 There will be a community cost in lost rates. Dungog
18 Council will not be able to rate Hunter Water on the land
19 that will become operational once the dam begins filling,
20 and that is in the order of \$80,000 per annum. Dungog
21 Council will probably be able to recoup that figure by
22 redistributing its rates over its existing customer base,
23 but in doing so, our existing customers will be paying that
24 \$80,000.
25
26 There is an infrastructure cost in the order of \$2m
27 per annum. That is a figure that we have tried to derive
28 through the use of council's roads and bridges, both during
29 construction and during the operation of the dam. Again,
30 Hunter Water would probably dispute that figure. We are
31 hoping that in their environmental assessment, they will
32 give us a figure that they think is a more accurate figure.
33 Until they do, we are relying on that figure.
34
35 There are a number of intangibles. We have some
36 environmental costs. Again we are waiting for the
37 environmental assessment to give us a bit of a feel for
38 what are the environmental costs, the effects on the river,
39 other industries that we may not have considered and the
40 extraction of water from the shire, which is unknown at
41 present. As I said, they are figures that have not
42 actually been considered at that stage. You are looking at
43 somewhere in the proximity of \$9m per annum plus some
44 intangibles.
45
46 In summary, there are environmental and social costs
47 associated with Tillegra Dam that have not been accounted

1 for and are likely to increase the capital and operating
2 expenditure of the dam. Dungog Council believes the cost
3 of water attributed to new customers should be recouped
4 through developer charges with existing customers only
5 paying for additional drought security measures.
6
7 Despite the cost allocation arrangement, Dungog
8 Council is concerned that price setting by IPART may be
9 used by Hunter Water Corporation as a means to avoid these
10 costs in the future. These costs will be transferred to
11 either the State Government or the community. Dungog
12 Council would recommend to IPART that any pricing be
13 reflective of those additional social and environmental
14 costs. Thank you.
15
16 THE CHAIRMAN: The secretariat may have some questions.
17
18 MR WARNER: One very simple question I will start with is
19 can we get a copy of your presentation at some stage?
20
21 MR McDONALD: It is on the laptop now.
22
23 MR WARNER: We appreciate there is uncertainty about
24 Tillegra and shares of costs and all those sorts of things,
25 but if the Central Coast constructs its Mardi to Mangrove
26 pipeline and puts it in a position where it has a positive
27 supply balance - that is, supply is greater than demand for
28 some period - do you think there is any basis for charging
29 the Central Coast for water?
30
31 MR McDONALD: None whatsoever, no. In fact, that is what
32 our whole argument is. We do not have enough information
33 at our fingertips to say whether the Central Coast really
34 needs it or not. We have certainly heard this morning from
35 Gosford and Wyong that they do not need the water,
36 although
37 Hunter Water is saying that is one of the reasons for
38 justifying the dam. Our opinion is that probably Gosford
39 and Wyong are okay for the next 20 years under present
40 arrangements. For that reason, they should not be charged
41 a developer charge or any contributions to the dam if they
42 do not require the water.
43
44 MR WARNER: If they were to decide they wanted to buy an
45 option at a lump sum price and paid something akin to a
46 developer charge and got a capacity share, then you
47 would think that would be okay?

1 MR McDONALD: I imagine that would be the fairest way. If
2 they chose to buy into the scheme, for example, and had
3 some sort of allocation associated with their part of the
4 operation, then a developer charge or something similar to
5 a one-off contribution would be, to my mind, the best
6 method. If they choose to utilise water as they do now
7 through the Hunter Central Coast transfer, then a per litre
8 figure, as is occurring now, seems to be an average figure
9 to charge.

10
11 MS GARNIER: I will have to skip our next question. We
12 were going to ask you what the additional costs were, but
13 you have just detailed those quite well on your slides.

14
15 Our third question is: you stated that the proportion
16 of costs assigned to increase security should be recovered
17 through usage rather than periodic fixed charges. Can you
18 explain the reasoning behind that, particularly in respect
19 of the fact that additional security is akin to an
20 insurance policy protecting against running out of water?

21
22 MR McDONALD: I think you would get a better response
23 from the public in reduction in demand management if that
24 price were included in your variable cost, your usage cost,
25 rather than being included in your fixed access charge.

26
27 THE CHAIRMAN: You suggested that IPART should build
28 an allowance for environmental costs and social costs into
29 our pricing, in effect. Those costs are over and beyond
30 the costs that Hunter Water actually incurs. They are
31 costs to the community and to the environment. They are
32 not actually incurred by Hunter Water. How would you see
33 the proceeds of that additional revenue then being
34 distributed?

35
36 MR McDONALD: Obviously it is a step that is sort of
37 larger than IPART and Dungog Council alone to try and
38 drive. We need the State Government. We have been
39 approaching the State Government to try to encourage Hunter
40 Water to meet some of these social and environmental costs
41 through an annual payment or some sort of a dividend paid
42 back through extraction of the resource from the shire.
43 How that happens is obviously, as I said, much larger than
44 the two of us combined. We believe that the costs need to be
45 reflective in the price because the price of water needs to
46 encompass those costs. Failure by Hunter Water to pay
47 those costs and then recoup them through its customers

1 means that the local community will end up paying for those
2 costs.

3
4 THE CHAIRMAN: I don't think we disagree with the
5 principle that costs beyond the costs actually incurred in
6 the financial sense can be reflected in the prices. On the
7 other hand, it is hard for us to assess those costs in the
8 first place.

9
10 MR McDONALD: I agree, yes.

11
12 THE CHAIRMAN: I am not saying that is a reason for
13 ignoring them, but it is hard to assess them. I do not
14 suppose anybody would welcome us giving Hunter Water a
15 free kick by just saying, "Here is some extra money for you."
16 We would want some sort of assurance as to what was going
17 to be done with the money.

18
19 MR McDONALD: I agree. There would need to be a program
20 or a facility to channel that money back into the community
21 to offset those costs within the community, yes.

22
23 THE CHAIRMAN: Thank you very much for your
24 presentation and we will move to Mr Rick Banyard from the
25 Property Owners Association.

26
27 PROPERTY OWNERS ASSOCIATION

28
29 MR BANYARD: Thank you. I represent the Property Owners
30 Association in New South Wales. We are an Australia-wide
31 organisation, but in New South Wales, about 400,000
32 household residential properties are owned by private
33 landlords, and if you put that into some sort of
34 perspective, about 137,000 are owned by the Department of
35 Housing, so we have a fair number of houses.

36
37 I want to talk to you about consumers, customers,
38 users. Those are words that are commonly used together and
39 people use them in the same breath. Unfortunately the way
40 the legislation is, you cannot call a person who is a user
41 or a consumer, a customer. "Customer", when related to
42 water has a particular definition. The definition is that
43 a customer is a person who holds a contract to purchase
44 water from one of the water authorities. In order to
45 purchase water, they have to be the owner of a parcel of
46 land.

1 That has significant implications, I believe, for the
2 evidence that the tribunal can take on board to make its
3 decision. It has significant implications for the
4 determinations that it can actually make. I believe it is
5 not correct for the tribunal to be making a determination
6 that is not consistent with the definition of "customer"
7 according to the water regulations.
8
9 This morning in the presentations, we have had
10 significant charts put up on the board. One related to the
11 mitigation of the impacts on low income customers. I put
12 it to you that that graph was totally inaccurate because it
13 included people who were not customers. We had a customer
14 impact chart. I put it to you that that graph was not
15 accurate because it had people on that chart who were not
16 customers according to the rules.
17
18 Customers are not residents, they are not boarders,
19 they are not band residents, they are not lodgers, they are
20 not granny flat occupants, they are not community housing
21 occupants, they are not public housing occupants and they
22 are not tenants. That is a very large group of people who
23 are not customers. Low income households do not come into
24 that category because most of those people are not
25 customers; in fact, about 70 per cent of households cannot
26 be customers.
27
28 That is a very important point. We therefore have
29 70 per cent of households who do not contribute to the
30 environmental aspects of conserving water. They do not
31 contribute to the capital costs. They do not do a lot of
32 things.
33
34 The only thing that that group of people can do, and
35 that depends upon the lease or commercial arrangement they
36 have with the land owner, is, in some cases, some of them
37 can pay for water usage component only. They cannot pay
38 for the fixed costs, and the Residential Tenancy Act very
39 clearly states that.
40
41 So we have this 70 per cent of households who are
42 ineligible to hold water contracts. They can therefore not
43 participate in the rebates. They cannot participate in
44 pensioner concessions. They cannot take part in the refit
45 programs. They cannot take part in the washing machine
46 concessions. They cannot make hardship application. There
47 were suggestions of loans and other arrangements. I

.14/11/08 92 POA

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1 suspect those households would not be able to make use of
2 those either because they are not customers according to
3 the water contract definitions.
4
5 Landlords could face very considerable costs because
6 of these problems. Landlords are faced with having to
7 issue accounts to tenants and to people who are tenants in
8 caravan parks, et cetera. Landlords have to wear the cost
9 of accidents. If a tenant shoots through and does not pay
10 his water usage bill, the landlord has to pay for it. The
11 landlord is not allowed, by law, to pass on any debt
12 recovery cost to the tenant and cannot have fees and
13 charges for late payments. All of those other things can
14 be readily plonked on to the landlord by the relevant water
15 authority.
16
17 There is a very low level of communication between the
18 tenants and landlords, quite frequently, which results in
19 significant water waste problems. People leave taps
20 running, taps on common property, and those types of
21 things. It is up to the landlord to be a fair sort of
22 investigator; otherwise there is a large amount of waste.
23 That is particularly important where tenants are not
24 responsible for paying the water use component.
25
26 The landlord also has to pay the bill to the water
27 authority before the tenant pays the landlord. That has
28 significant impact. With the water authorities shortening
29 the time frame for payment and the period where they are
30 putting late payment fees on, or whatever, it is almost
31 impossible to get the money from the tenant prior to the
32 bill having to be paid.
33
34 Our association asks: will the landlords be given a
35 discount rate of purchase or have a lower price set by the
36 tribunal for the resale of water to tenants and other
37 people? The landlords have taken on a considerable amount
38 of the responsibility of the water provider particularly in
39 the debt and the money areas and there should be some
40 compensation for it.
41
42 I would like to move on to water meters. Our
43 association is extremely concerned that a large number of
44 households do not have water meters. It is very hard to
45 get accurate figures on this. We suspect that probably as
46 many as 50 per cent of households do not have individual
47 water meters. Our information tells us that around about

.14/11/08 93 POA

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1 5 per cent of properties have no accurate water meter
2 readings at all, let alone the individual occupants. We
3 believe it is just unreasonable for a commodity to be sold
4 without that product being individually metered.
5
6 We are certainly opposed to drainage service charges
7 and these other types of things. Our association believes
8 that we should have a 100 per cent user pays system for
9 water by volume. That includes water, liquid waste, any of
10 the other types of things - they should all be 100 per cent
11 user pays.
12
13 We recognise that the tribunal probably cannot change
14 the legislation to change the definition of the Act within
15 this determination; however, they can recommend that it be
16 changed, and over time it can. One major reason for our
17 proposal is because, under the Residential Tenancy Act and
18 other rules, if it was 100 per cent user pays, that would
19 then allow landlords to pass on the true cost of water to
20 the people who are actually using it.
21
22 I would like to make a quick comment on Tillegra Dam.
23 I think our association has the thought that the water in
24 the dam is a little bit like bottled water - you pay for
25 the product, not the factory. We think that is an
26 important principle. We believe that it is up to whoever
27 wants to construct the dam or that type of infrastructure
28 to do that and that it should not be paid for by the
29 consumer or customer or user - whichever word is
30 appropriate - until such time as the product is actually
31 made.
32
33 We would suggest that another major product that
34 consumers, and customers, use is petrol. Petrol operates
35 on a 100 per cent user pays basis. We all pay the price
36 that is set. Maybe we do not all agree with the way the
37 price is determined for petrol, but that is the principle,
38 and that is a major commodity that every household buys.
39 A tollway is another example. The tollway is funded,
40 built, and then the revenue collection commences from that
41 point on. We believe that is the way it should be, so we
42 go back to the initial thought: it is bit like bottled
43 water - you pay for the product, not the factory.
44
45 I would like to finish up with a very quick comment on
46 recycling. Recycling does not seem to feature very
47 prominently. Our association believes that there is

1 nothing like enough effort being put into recycling and
2 reuse of water.
3
4 Recycling does not mean that the water has to go back
5 to drinking water standards. There are a large amount of
6 functions that water can be used for that do not have to be
7 up to drinking water standards. We see that as being very
8 important.
9
10 There is another benefit to recycling and to reuse of
11 water and that is in the flood mitigation area. The severe
12 storms of June last year and other recent times indicate
13 that we get large amounts of flooding occurring at great
14 cost and great expense. Perhaps they should be put on the
15 other side of the ledger when we are looking at the
16 recycling costs. If we could cut down on some of the flood
17 damage cost, that would have a significant impact. Thank
18 you.
19
20 MR WARNER: In your submission, you contend that all
21 households should be individually metered at a cost to the
22 water supply authority. However, it has been put to us
23 that the cost of implementing this is likely to be
24 considerable and may indeed not even be practical in the
25 case of existing apartment blocks. How would you respond
26 to that?
27
28 MR BANYARD: Pretty well ever other supply authority that
29 supplies inputs into a household does individually meter
30 and does individually bill the occupant. Electricity, gas,
31 telephone, pay TV are some examples.
32
33 There are some costs involved in installing the
34 meters - there is no argument about that - but if the water
35 authorities have been remiss in the past in not carrying
36 out the basic function of being able to meter water, that
37 is a problem we believe they have to face. However,
38 technology is coming to the rescue and there are now a
39 considerable number of options to apply water meters to
40 existing buildings at very low cost, including meters, for
41 example, that wrap around water pipes and all sorts of
42 things.
43
44 Don't forget if you go to McDonald's and you get a
45 Coke, that Coke is individually metered and it is metered
46 to the exact quantity. If they can measure the volume of
47 on a Coke machine at McDonald's, I think the water

1 authorities should be able to sort out metering in a
2 household.

3
4 MS GARNIER: Another aspect of your submission was:

5
6 The operation of the dam --

7
8 We assume you mean Tillegra --

9
10 should be considered as a business unit.

11 Like all businesses the capital cost,
12 operations costs and maintenance must be
13 funded by sales. In this case water.

14
15 Our question on that would be: how do you propose that the
16 initial capital for building Tillegra be raised without
17 incorporating the cost into periodic charges in advance?

18
19 MR BANYARD: When we all started using mobile phones -
20 they suddenly popped up into our community - consumers
21 were not asked to put their hands in their pockets for the
22 mobile phones before the network and the phones were up in
23 place. That was financed by enterprising corporations and
24 government instrumentalities, seeing the opportunity, by
25 the raising of venture capital from other places and by the
26 introduction of private people into the market who had seen
27 an opportunity in doing that.

28
29 For example, some of the tollways in Sydney are built
30 by people who have had a vision to put a piece of road
31 there to make some money out of it. The same thing can
32 apply to the dam, I am sure, if the dam is a viable option.
33 As with pumping stations, tunnels or other water
34 infrastructure, if they are viable and sound economic
35 ventures, then the money should be available to do those
36 things from a range of sources.

37
38 MR WARNER: Are you aware of any provisions whereby
39 landlords could recover any unpaid water bills from, say,
40 the bond that a tenant has to lodge and do you believe that
41 that would be an appropriate form of cost recovery
42 mechanism for landlords?

43
44 MR BANYARD: The bond can only be accessed when the tenant
45 departs from a premises. Not all people have bonds. For
46 example, boarders and lodgers do not pay bonds, under the
47 rules, so bonds only apply to certain types of household

1 occupants.

2
3 There are a number of people in residential situations
4 who are not customers, but they do not operate under formal
5 leases or formal residential contracts. If they do operate
6 under the Residential Tenancy Act and under a residential
7 lease, you can go to the Residential Tenancy Tribunal and
8 attempt to obtain your money through that process. That is
9 an expensive process. It costs the landlords a
10 considerable amount of money. It can be quite a convoluted
11 process and the financial benefit may not be significant.

12
13 Generally what happens is that the landlord puts up
14 with not getting paid for the water until the end of the
15 tenancy and it becomes one of the final bills at the end of
16 the tenancy when the tenant has probably skipped. When
17 they have skipped, they have invariably burned up the bond
18 money by not paying the last few weeks in rent and it is
19 quite common for landlords to end up with bills of \$1500 to
20 \$2,000 for unpaid water usage.

21
22 If the tenant has to pay for the water usage and you
23 take those examples that were put up on the board this
24 morning, a \$1,000 bill is generally about \$250 worth of
25 water usage. The fixed charge of \$750 is paid for by the
26 landlord. We contest that that is unreasonable, unfair and
27 whatever. That is why we believe that it should be 100 per
28 cent user pays so that the tenant pays for the lot.

29
30 If the tenant is paying all of the water bill, the
31 tenant will be a lot more careful with the water that is
32 used. It is much better for the environment, it is much
33 better for water conservation - all of those aspects. That
34 would probably reduce the need to have a lot of water
35 restrictions and other regulatory things in place.

36
37 I suggest to you that this group of people who are not
38 customers amounts to as many as 70 per cent of the
39 households and that is a lot. If that 70 per cent of the
40 households start to do as good a job as the people who are
41 in the 30 per cent who are doing the right thing now, we
42 would probably find that the water requirement for most
43 households would drop quite drastically. I suggest that
44 the average of around the 100 kilolitres is up at that
45 level because of the careless people in the community who
46 do not have the economic and the financial responsibility
47 for the water they use. In my own household, I use about

1 50 kilolitres of water - \$100 worth of water out of a
2 \$1,000 bill.

3
4 THE CHAIRMAN: Are there any questions from the tribunal?
5 Thank you very much indeed.

6
7 MR BANYARD: No worries, thank you.

8
9 YODALLA INVESTMENTS

10
11 THE CHAIRMAN: Mr Kettle, from Yodalla Investments.

12
13 MR KETTLE: Thank you very much. The submission I have
14 put in really relates solely to the issue of the
15 attributable charges in water in strata unit buildings and
16 particularly where there are no individual water meters for
17 individual units such as normally would be the situation in
18 a commercial building and probably in a lot of industrial
19 buildings also.

20
21 The situation at the present time, and this relates to
22 the city of Gosford, is that the formula that is used is
23 such that the total amount of water used in that building
24 is split up equally by all the strata units in the building
25 regardless of their size.

26
27 This situation obviously raises issues of equity in
28 terms of the number of people who might be using any
29 particular strata unit of a particular size and also I
30 believe does not really contribute very much to the concept
31 of wasting water and attempting to conserve water as we go
32 into a period of increased scarcity and cost.

33
34 It is interesting in one of the contributions plans
35 that Gosford City has adopted, the one for the Gosford City
36 centre area, that it arrived at various what they call
37 density assumptions for residential, commercial, industrial
38 and retail development and, for example, with residential
39 units they have attributed an assumed number of residents
40 of 1.5 persons, assumed I will emphasise, for a small unit,
41 that is a unit of less than 70 square metres; two people in
42 a medium sized unit; and three people in a large unit.

43
44 For commercial development, they have assumed one
45 worker per 20 square metres of floor area. In retail
46 development, 40 square metres, and in industrial
47 development, 50 square metres.

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1
2 In the submission that I put in I referred
3 specifically to the Kensmen building, which is a commercial
4 strata titled five storey building in central Gosford,
5 where the commercial units in that building range in size
6 from about 39 square metres up to more than 180 square
7 metres, so on that basis, and using the sort of assumed
8 densities that Gosford Council has adopted, one could say
9 that, okay, there might be two people working in the
10 smallest unit, up to nine people working in the largest
11 unit, yet when it comes to water charging every one of
12 those units is charged the same amount of money based on
13 the total amount of water that is used within that
14 building.

15
16 What I would like to suggest is that the tribunal
17 gives some consideration to an alternative formula whereby
18 - I think you will find that as far as I am aware - all
19 strata unit buildings have unit entitlements which are
20 largely based on the area and/or type of use of a
21 particular unit in that building. For example, in the case
22 of the Kensmen building, the number of unit entitlements
23 varies from 142 unit entitlements for that smallest unit I
24 was talking about up to 453 units, so again there is about
25 a three to four times factor between the smallest and the
26 largest unit in that particular building.

27
28 What I would like to suggest, as I put in the
29 submission, is that the formula that you previously adopted
30 for strata developments that currently applies in Sydney,
31 I am not sure whether it is the same situation in Gosford,
32 presumably it is, is that the total amount of water used
33 should be divided by the total number of unit entitlements
34 and then multiplied by the unit entitlements allocated to a
35 particular property. In other words, based on the total
36 amount of water used in that building, the individual
37 properties would be charged for the water based on the
38 number of unit entitlements that each of those separate
39 units has allocated to it.

40
41 It would seem to me that that form of allocation would
42 overcome the issue to a greater degree of equity and I
43 think probably if people knew that they were having to pay
44 an appropriate amount relative to the size of their
45 business and the size of their unit there would probably be
46 a greater term in terms of water use also.

.14/11/08 99 YODALLA
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1 THE CHAIRMAN: Thank you.
2
3 MR WARNER: How can we satisfy ourselves that unit size or
4 unit entitlement will be a better measure of water
5 consumption than equal splits?
6
7 MR KETTLE: A unit entitlement is put on strata unit
8 developments generally based to a large degree on the size
9 of the particular unit. In residential development, I
10 guess in those situations - I have not gone into detail in
11 that - but certainly you could have a small unit and a
12 family of four, or a large unit and a family of two, so I
13 don't think necessarily what I am suggesting would
14 necessarily apply to residential type units. In many of
15 those cases I believe, as the previous speaker might have
16 been inferring, there are in a lot of cases I believe
17 individual water meters for separate units within
18 residential strata developments.
19
20 In commercial, retail and industrial units there is
21 often quite a variety of size variation and in those
22 instances in many cases the number of people who will be
23 utilising that space would be dependent on the size of the
24 space. So I believe that by using the unit entitlement
25 basis, which is largely attributable to the area of the
26 individual unit, would be a far fairer method than one that
27 I have given you have as an example, where there is a four
28 times variation between the smallest and the largest unit
29 and by extrapolation the number of people who are likely to
30 be employed in each of those strata units.
31
32 THE CHAIRMAN: Just pursuing that a bit further, I thought
33 unit entitlements also reflected location within the
34 building.
35
36 MR KETTLE: I believe there can be a small amount of
37 variation on that but generally speaking it is not
38 significant as I understand it.
39
40 THE CHAIRMAN: Just going from my own experience,
41 which is a sample of one I appreciate, I can remember renting
42 premises in buildings where it cost a lot more to be, this
43 is commercial premises, to be on the ground floor at the
44 front, on the street front, than to be say at the back of
45 the building on the third floor.
46
47 MR KETTLE: That may be the situation if the potential use

1 is going to be different, there can be a variation on that.
2 But I believe that the system I am suggesting would have a
3 much greater degree of equity than just a straight out
4 easy, simple, that is the amount of water, we will divide
5 it by six or whatever it is and everyone pays the same.
6
7 THE CHAIRMAN: I can see the logic of what is wrong with
8 the present system. It is how well the change would work.
9
10 MR KETTLE: I have not given a great deal of thought to
11 other alternatives. However, one could look at the size of
12 each of the units as a possibility, but because unit
13 entitlements are on every strata plan and every council has
14 a copy of every strata plan that seemed to me that it is
15 the most easily achievable and easily implementable system
16 as an alternative to the current system.
17
18 THE CHAIRMAN: Thank you very much.
19
20 MR BRIAN ROWE
21
22 THE CHAIRMAN: Lastly, Mr Brian Rowe.
23
24 MR ROWE: Thank you, Mr Chairman. I am a bit surprised
25 to be here today because I just wrote three pages in relation
26 to the Mardi to Mangrove pipeline and I got an invite, so
27 this is not exactly directly on pricing of water itself.
28
29 Briefly, my submission today comes from the left of
30 the centre. Succinctly put, I am in favour of the Mardi to
31 Boomerang Creek/Mangrove Creek Dam pipeline being built.
32 I am not in favour of the ratepayers of the Central Coast
33 contributing to the construction of Tillegra Dam. Of
34 course, if the coast uses water from the Hunter storage I
35 would expect the joint water authority to pay for the
36 quantity of water that is used.
37
38 I believe that if the building of the Mardi to
39 Mangrove Creek Dam pipeline is abandoned or deferred for
40 some years, it may never be built, even though a route
41 through the Yarralong Valley has now been negotiated. If
42 the commonwealth's grant of \$80m is withdrawn, and in this
43 financial climate with no election in the offering for
44 several years, another offer of \$80m plus is not going to
45 come along, if ever.
46
47 The pipeline should have been built some years ago but

1 after the construction of the Mangrove Creek Dam was
2 complete, the coast experienced flooding rains and the dam
3 became about 70 per cent full. It would seem that this was
4 a golden opportunity for the government not to complete its
5 plan to augment the coast water supply and thereby save
6 money. This was done even though the Mangrove Creek Dam
7 has a small catchment area and was built as a holding dam,
8 something which residents have been repeatedly told over
9 the last several years of drought.

10
11 Councils, of course, do not have the revenue base
12 which the State Government has to finance such a project.
13

14 I believe that once the pipeline is built, and of
15 course depending on rainfall, something which the proposed
16 Tillegra Dam would also have to rely on, the coast may well
17 be water sufficient for the next 20 years. I do not
18 pretend that I have done any modelling to prove this.
19 However, if the coast does get good rainfall and the
20 opportunity to raise the wall of the dam is undertaken -
21 and in this regard I understand that the dam was designed
22 in such a way for this to occur - the coast may not need to
23 rely on Hunter Water until perhaps 2050, the date nominated
24 in the recently completed WaterPlan.
25

26 Whilst \$80m has been granted by the Commonwealth
27 Government for the building of the pipeline, it is
28 presently estimated to cost in the vicinity of \$110m. It
29 is expected that coast ratepayers will contribute towards
30 the current shortfall of \$30m on top of payment for water
31 usage.
32

33 If the pipeline is abandoned, this will certainly give the
34 State Government an opportunity to approve a longwall
35 coal mining application which will affect the
36 Dooralong/Yarramalong valleys by mine subsidence.
37 Longwall mining, of course, is notorious as a causation of
38 subsidence. Water from creeks and rivers can just
39 disappear through a crack opened up by mining.
40

41 It would also affect the underground water and
42 aquifers which contribute in excess of 60 per cent of water
43 flowing into the Wyong River, Jilliby Creek and other
44 tributaries of these major streams in the two valleys.
45

46 There are numerous studies in relation to this and no
47 doubt a lot of them were referred to in the inquiry held

1 under the chair of Ms Chikarovski into coal mining on the
2 Central Coast.
3

4 The government will obtain royalties, which have just
5 gone up in the budget, from the applicant Kores, a company
6 associated with the Korean government. As far as I know,
7 the government is still sitting on the findings from
8 Ms Chikarovski's inquiry.
9

10 If mining were to be allowed and IPART recommends that
11 the coast contribute towards the construction of Tillegra
12 Dam, one which still has to receive approval, the next step
13 would be for the government to allow the coast water and
14 sewerage system to be taken over by Hunter Water. This
15 would give Hunter Water another 250,000 to 260,000 more
16 consumers and of course the Government could then direct an
17 even higher dividend and once again force the Hunter to
18 borrow for major projects.
19

20 It would also give Hunter Water a lot of assets already
21 paid for by coast ratepayers. It is doubtful whether
22 the councils would be recompensed by the government
23 for such an action. Undoubtedly if it is to come, it would
24 have to come from Hunter Water, and again the coast
25 ratepayers would in no doubt have to pay for those assets
26 once more.
27

28 Additionally, Hunter Water's bills are far higher than
29 those on the coast because there is the cost of a separate
30 administration, something which the coast ratepayers enjoy
31 a current savings on because of the combined administration
32 of council rates, water and sewerage.
33

34 The Hunter has two small catchment dams, Chichester and
35 Lostock, for water supply, and a larger holding dam
36 Grahamstown, into which water is pumped from the
37 Williams River at Raymond Terrace. It also has the sand beds
38 at Tomago.
39

40 Despite the closure of BHP, the Hunter still has heavy
41 industry. OneSteel, a rather large operation which now
42 encompasses what were the Wire Rope Works, Tubemakers
43 and Stewart and Lloyds; it has heavy engineering firms, EDI
44 Downer and United, maker of locomotives, carriages, et
45 cetera; Bradken Engineering, maker of rail wagons and other
46 such items; two coal loaders, with one being built;
47 miscellaneous industry on Kooragang Island; various

1 underground coal mines in both the Hunter and Lake
2 Macquarie areas as well as above ground mines in the
3 Singleton and Muswellbrook area. Some of these underground
4 mines supply Eraring power station, as well as coal being
5 provided to both Liddell and Bayswater power stations up
6 near Muswellbrook.

7
8 The Hunter has also a lot of medium sized industry
9 which has increased quite considerably over the years.

10
11 Additionally, the Hunter has also a burgeoning
12 population particularly in the Maitland area, with large
13 areas being the subject to DAs for large estates between
14 Cessnock, Branxton and Singleton, as well as in the
15 southern parts of Lake Macquarie, Catherine Hill Bay and
16 Gwandalan. Over the years there has also been considerable
17 housing between Wallsend, Edgeworth, to Minmi, West
18 Wallsend out to the F3 freeway.

19
20 I believe all this points to the Hunter needing to
21 augment its current water capacity irrespective of the
22 requirements of the Central Coast.

23
24 Including the Central Coast was a good selling point
25 for the Government at the last election. That is my
26 personal belief. It was also reported in the local media
27 newspapers that the Hunter Water, via its media manager,
28 has agreed that Central Coast residents will not have to
29 pay for the dams construction, only if water is taken from
30 storage for use on the coast. Obviously, of course, that
31 is a matter for IPART and the government.

32
33 Given that if the pipeline goes ahead it would be a
34 huge impost on the coast ratepayers to pay for both the
35 excess cost of the pipeline, some \$30m, and towards the
36 cost of Tillegra Dam.

37
38 I have noted that Gosford Council has proposed an
39 increase in water rates of some 37.6 per cent to be phased
40 in over four years. It seems to be a rather excessive
41 amount given that Wyong Council, to my understanding, is
42 only seeking an increase of about 16 per cent over the same
43 period.

44
45 I urge IPART in its deliberations to ensure that
46 disadvantaged ratepayers, Centrelink pensioners and other
47 disadvantaged groups can actually afford to absorb real

1 price increases. In this regard, I have read that IPART is
2 charged with ensuring that lower socio-economic groups are
3 protected from, or should be protected, from excessive
4 price impacts.

5
6 I also note that there is a cumulative effect on
7 disadvantaged/low socio-economic groups of increases. We
8 have seen transport fares, particularly those proposed for
9 trains over the next three years, electricity costs, and if
10 capping will no longer apply to councils we will see large
11 increases there.

12
13 But over-reaching all of that will in my belief be the
14 cost of climate change in the form of carbon trading, which
15 the Commonwealth Government tells us could begin in 2010.

16
17 I thank you.

18
19 MR WARNER: You have really answered most of our
20 questions. One question we did have was, were you aware of
21 scientific studies on the amount of water lost in the Wyong
22 River due to subsidence and I think you have directed us to
23 the Chikarovski inquiry in relation to that.

24
25 MR ROWE: I believe there are a lot of other inquiries
26 which were undoubtedly referenced off that inquiry about
27 loss of water in the Cataract River south of Sydney. I
28 believe the RTA is strengthening the bridge at Douglass
29 Park.

30
31 MR WARNER: We were more interested in the Wyong River
32 and any subsidence there.

33
34 MR ROWE: I think a creek disappeared up near Lake
35 Macquarie. Newcastle is notorious for mining subsidence
36 and not all of that has been caused by longwall mining.
37 This predates longwall mining coming in. There is many a
38 time when you could wander around some of the parts of
39 Waratah at the back of Bray Park, Lambton way, and come
40 across air shafts and what have you, and the main road
41 between Swansea and Doyalson is subject still to some
42 mining subsidence from the past, and that is what could
43 happen I believe to the Wyong River, the Jilliby and Little
44 Jilliby Creeks and all the other little creeks that feed
45 into it if longwall mining is given the go ahead by the
46 government.

1 THE CHAIRMAN: Thank you very much.
2
3 GENERAL QUESTIONS
4
5 THE CHAIRMAN: It is now open to any member of the
6 audience who wants to make a comment.
7
8 MR KOIZUMI-SMITH: In relation to the comments made
9 earlier with regard to how we might fund pensioner rebates,
10 if we were to go further above those provided under the
11 Local Government Act. It is just a cautionary tale of the
12 need to look at the demographics of the local community.
13 Central Coast particularly has a very large pensioner
14 demographic as well as a very large low socio-economic
15 group, so by passing some of the costs on to the remaining
16 groups we may see an adverse impact in the prices paid by
17 them.
18
19 Whilst I recognise that as a community we need to look
20 after all members, we probably do need to look at it in a
21 broader sense.
22
23 And I think our manager operations can respond to a
24 question asked by Ms Krieger earlier about the different
25 costs for the Gosford and Wyong areas.
26
27 MR REDRUP: My name is Michael Redrup. I am with
28 Gosford Council. I just wanted to clarify a couple of issues
29 raised today, one of which is some of the differences
30 between the operating environment between Gosford and
31 Wyong. Our director detailed one big difference in the
32 return on assets but there are two key indicators that are
33 highlighted in the national performance report of the
34 National Audit Commission particularly relating to broken
35 water mains and sewer main blockages.
36
37 The Gosford area suffers from about eight times the
38 number of failures in water mains than Wyong does. We are
39 unfortunately in the high top level performance, the bottom
40 level performance, in that regard, so our operating costs
41 are considerably greater in not only responding to those
42 breaks but in responding in terms of an increased capital
43 refurbishment program that we put in for water mains.
44
45 Similarly with our sewer main chokes, we suffer not
46 only from greater response costs but greater proactive
47 programs to try to get on top of those. That sort of

1 information will be provided as promised by our director in
2 due course.
3
4 A couple of other issues that were raised: The Total
5 Environment Centre raised the issue of our commitment to
6 permanent water restrictions. We do in fact have a
7 commitment to permanent water restrictions and they will be
8 developed over the next few years. They have not been a
9 high priority because we are obviously under fairly severe
10 restrictions at this point of time. You can be assured,
11 though, that that will be a core element in our future
12 demand management program.
13
14 With regard to access to the ombudsman, while we
15 operate under the local council, our customers have ready
16 access to local representations without having that and it
17 should be pointed out that under the water corp proposed
18 for the area, access to the ombudsman is included in that
19 arrangement so that should be fairly well covered.
20
21 With regard to water recycling, council has identified
22 a particular scheme at Woy Woy for future consideration.
23 It has not reached concept stage yet but we are looking at
24 it because the preliminary figures look like it may well be
25 feasible and so it will now go through the business case
26 process and, should it be proven to be prudent, we will be
27 looking to progress that project. If not, it won't be
28 proceeded with.
29
30 The last point was access to rebates. It was
31 mentioned, I missed the person's name, but our rebate
32 program for washing machines includes people with a lease,
33 if they can show a lease for six months they can gain
34 access to that rebate program, and I am not sure about all
35 the programs but that was one aspect that I just wanted to
36 highlight.
37
38 Thank you.
39
40 THE CHAIRMAN: Are there any other comments?
41
42 MR MORRIS: My name is Don Morris, an ordinary person.
43 All water has been recycled several times. The sun does it
44 normally, and it comes down. That water was not made
45 yesterday; it was made so many thousands years ago. We
46 need a form of recycling water. A major use of water is
47 flushing toilets. We need to have some way of passing

1 recycled water along a sewerage pipe to use to flush
2 toilets. That would take care of nine-tenths of the fresh
3 water presently being used. The people in Brisbane now
4 have to drink recycled water, which is a strange idea; most
5 of them did not want to do it.

6
7 CLOSING REMARKS

8
9 THE CHAIRMAN: Thank you. As there are no more
10 comments, I would like to take this opportunity to thank you
11 all again. Speaking on behalf of the tribunal, I think that
12 quite a number of matters have been clarified for us today,
13 particularly the view about the future water supply/demand
14 balance for the Gosford- Wyong region - the views we have
15 heard here regarding that balance are important - and the
16 implications for that about how much you think you will
17 need Tillegra Dam in the future. It has been helpful to
18 have that clarified.

19
20 I think we have a better understanding also of the
21 drivers underpinning the price increases requested,
22 including, if you like, the trade-off between
23 affordability, on the one hand, and getting an adequate
24 rate of return on capital, on the other hand. In those
25 matters at least, and I am sure there are others, it has

26 been very helpful for us in the hearing today, and I would
27 like to thank you all for assisting us with this.

28
29 Thank you and the meeting is now closed.

30
31 AT 3.00PM, THE TRIBUNAL ADJOURNED ACCORDINGLY

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