

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

PUBLIC HEARINGS METROPOLITAN WATER PRICE REVIEW

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Tribunal Members

Mr M Keating - Chairman

Mr J Cox

Mr D Brett

Ms C Cifuentes

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Held at the Portside Centre,  
Level 5, 207 Kent St, Sydney, NSW 2000

On Thursday, 10 March 2005, at 9.00am  
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1 OPENING REMARKS

2  
3 THE CHAIRMAN: I would like to welcome you to the public  
4 hearing that is being conducted by IPART today into water,  
5 waste water and stormwater prices. I am Michael Keating  
6 and I am chairman of IPART. Two of my fellow members of  
7 the tribunal to my right are Jim Cox and David Brett.  
8 Cristina Cifuentes will join us and will be sitting on my  
9 left.

10  
11 The tribunal is conducting this hearing under  
12 section 11 of its Act as part of a price review that will  
13 ultimately result in the tribunal setting future prices for  
14 the Sydney Catchment Authority, the Sydney Water  
15 Corporation, Hunter Water Corporation and the water  
16 businesses of the Gosford and Wyong councils.

17  
18 As part of its investigation, the Tribunal issued back  
19 in July last year an issues paper which set out the key  
20 aspects of the review process. That issues paper also  
21 outlined some of the matters that the Tribunal considered  
22 important to this review. It gave us a general approach to  
23 the price-setting matters that it must take into account in  
24 conducting the investigation and a draft timetable for the  
25 review.

26  
27 In the issues paper, the Tribunal called for  
28 submissions from both the regular water agencies and other  
29 stakeholders. Some agencies' submissions were  
30 significantly delayed. As a result, the Tribunal has  
31 allowed additional time to focus on their submissions. I  
32 think it is fair to say that we feel that we have had a  
33 gratifying response to the request for submissions.

34  
35 Some of the organisations that have made submissions  
36 to this review will be presenting their cases to this  
37 hearing of the Tribunal today. You can be assured that  
38 all of the submissions received will be carefully  
39 considered by the Tribunal when developing its findings and  
40 recommendations.

41  
42 We consider at the Tribunal that this is a very  
43 important investigation. As I think is generally  
44 recognised, Sydney is facing a significant and potentially  
45 growing imbalance between the supply of and demand for  
46 potable water. This is a short-term imbalance caused by  
47 drought. In addition the general perception is that there

1 is a longer term imbalance.

2  
3 What may be less well known to those of us here from  
4 Sydney is that the Central Coast is also facing a  
5 significant supply/demand imbalance with water storages at  
6 even lower levels than Sydney's. There are a number of  
7 causal factors for these imbalances. Clearly growth and  
8 the number of people depending on water supply systems is a  
9 factor and certainly the drought is a key immediate factor.  
10 What is less well known and understood is whether and to  
11 what extent longer term climate change may also be the  
12 cause. For both Sydney and the Central Coast, bringing  
13 supply and demand into balance will require significant  
14 expenditure. That is reflected in the submissions we have  
15 received from authorities.

16  
17 Late last year, the New South Wales Government  
18 released a metropolitan water strategy which outlined its  
19 proposals for bringing supply and demand back into balance  
20 in the area served by Sydney Water and the Sydney Catchment  
21 Authority. Some of the measures in that strategy are  
22 clearly evident in the expansion proposals from those two  
23 businesses. Inevitably increased expenditure on these  
24 measures will flow through to the prices customers pay.

25  
26 Our role in the Tribunal is to scrutinise these and  
27 other expense proposals to assess whether the costs they  
28 represent should be all passed through to customers or  
29 whether there is scope for greater efficiencies. This  
30 hearing will be considering that issue amongst others.

31  
32 In the context of the supply/demand imbalance, the  
33 level and structure of water prices may also be important  
34 in encouraging consumers to limit their demand. Last year,  
35 the Tribunal undertook a separate review on the role of  
36 price and price structures in reducing the demand for water  
37 in the Sydney basin. There is a published report on that  
38 review which explores some of the complexities of different  
39 price structures.

40  
41 The task before the Tribunal now is to actually set  
42 prices and determine the most appropriate price structure  
43 for each of the water agencies. In doing so, the Tribunal  
44 will have to take account of a wide range of matters  
45 required by its Acts. These include but are not limited to  
46 the potential for prices to reduce demand and the potential  
47 impact of different price structures on customers, and I

1 want to mention particularly vulnerable customers.  
2  
3 This hearing is a very important part of this broader  
4 price review process. It provides an opportunity for the  
5 Tribunal to hear, and in a public forum, from the water  
6 businesses and other key stakeholders and for us to  
7 question, if you like clarify, the key propositions that  
8 have been put forward. The submissions made by the water  
9 businesses together with other submissions and all the  
10 consultants' reports are available to the public through  
11 the Tribunal's web site.  
12  
13 Before we commence proceedings today, I would just  
14 like to say a few words about the processes for this  
15 hearing. You should all have a copy of a timetable which  
16 indicates the order of the presenters. As you will see,  
17 there are a considerable number of organisations presenting  
18 today. For each organisation appearing, a presentation  
19 time has been allowed and this is to be followed by a  
20 period of questions. I would ask presenters - all of you -  
21 to stick to the allotted time; indeed I will probably  
22 somehow flag when you have got about three minutes to go so  
23 you can start winding up. As a presenter, I know how easy  
24 it is to go over time.  
25  
26 There will be questions of the presenters, but today  
27 they will be limited to questions by the Tribunal  
28 secretariat and members of the Tribunal itself. The  
29 Tribunal will not take questions from other presenters.  
30 Today we are not taking questions from the floor.  
31 Questions will only be put to the presenters at the close  
32 of their presentation so we will not be interrupting you or  
33 cutting into your time that way.  
34  
35 At the table in the front of the room are the Tribunal  
36 secretariat members, Colin Reid, nearest to me, who is  
37 Director of Water and Transport, and Christopher Spangaro,  
38 who is the Program Manager for Water Pricing. They will do  
39 most of the work in terms of asking the questions.  
40  
41 The Tribunal does anticipate providing further  
42 opportunities for consultation with interested parties  
43 through the course of this price review.  
44  
45  
46  
47

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1 SYDNEY CATCHMENT AUTHORITY  
2  
3 We are going to commence today with the Sydney  
4 Catchment Authority and the Sydney Water Corporation. I  
5 would like to begin by welcoming Ms Lisa Corbyn and  
6 Mr Graeme Head. Lisa is the chief executive officer and  
7 Graeme is the managing director of the Sydney Catchment  
8 Authority.  
9  
10 MS CORBYN: Thank you very much. I would like to make a  
11 few opening remarks from the SCA chief executive  
12 prospective. Then I will turn over to Graeme Head - who  
13 is, as you pointed out, the managing director - to provide  
14 a more detailed picture on the SCA's business and pricing  
15 need. In particular I wanted to try to highlight some of  
16 the recent successes of the SCA in meeting its overall  
17 purposes and to outline some of the main challenges in that  
18 context for us in this opening discussion. Graeme will  
19 then take the Tribunal through some of the detail on how  
20 the SCA undertakes its major functional areas. He will  
21 also talk about some of the important aspects of our  
22 pricing submission and also comment on IPART's consultant  
23 study on SCA's future business activities.  
24  
25 SCA is a relatively young organisation - it is not  
26 quite six years old - so IPART's current price path  
27 determination comes really at the end of the first five  
28 years of the SCA. In many ways, it is a very opportune  
29 time for us. The Minister for the Environment, the SCA  
30 board, Graeme, as managing director and I have all taken  
31 the opportunity to review where we are both  
32 organisationally and also legislatively after this first  
33 real five years of operation of the SCA.  
34  
35 From those reviews overall the SCA can clearly show  
36 that it has met and continues to meet its fundamental  
37 requirements which are to provide Sydney, the Illawarra and  
38 the Blue Mountains with quality bulk water. But this has  
39 not been without its challenges, I have to say. I think it  
40 is fair to say that when SCA was set up, it inherited a  
41 backlog of issues to manage, including ageing and degrading  
42 infrastructure and catchments that were in declining  
43 health. This was, of course, on top of the need to set up  
44 new systems and new tools which are necessary to manage a  
45 new organisation. From my perspective, I think the SCA  
46 has made great strides across all of those areas and I want  
47 to touch quickly on three of those and then turn to some of

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1 the challenges.

2  
3 From a success perspective, I think the first thing  
4 that I wanted to highlight is in relation to supplying bulk  
5 water to Sydney Water and other customers. In five years,  
6 SCA has worked to upgrade much of its infrastructure,  
7 including major upgrade works on the dams and putting in  
8 place a program to systematically address the backlog of  
9 maintenance across its infrastructure. We have developed  
10 new systems and procedures for better water storage and  
11 management, and I think that's a compliment to the agency.  
12

13 The second is protecting water quality, which of  
14 course is fundamental and is an issue for a bulk water  
15 supplier. Our current understanding of risk to water  
16 quality is appreciably better than six years ago. As  
17 Peter McClelland recommended when he undertook the inquiry  
18 into Sydney's 1998 water quality incident, the SCA has  
19 invested in improving the knowledge base that informs our  
20 understanding of risks to water quality and how to manage  
21 them.  
22

23 We have developed a leading-edge water quality risk  
24 management framework, which Graham will touch on, new  
25 tools  
26 to help predict increased risk to water quality and new  
27 response mechanisms to mitigate those risks, and clearly a  
28 fundamental part as well of protecting water quality has  
29 been to build strong linkages across the agencies that are  
30 particularly involved in the water cycle. SCA has, as  
31 recommended by the McClelland report, put a lot of time and  
32 effort into setting up significant relationships with the  
33 other government agencies that might jointly manage water.  
34 In particular, we have memoranda of understanding that have  
35 brought some real improvements, I think, in the  
36 relationships between the SCA and Health, the SCA and  
37 Sydney Water, the SCA and the Department of Infrastructure,  
38 Planning and Natural Resources, and the SCA and the  
39 Department of Environment and Conservation, which I am  
40 particularly interested in as well.

41 The third area of success that I wanted to talk about  
42 quickly was the active management and protection of the  
43 drinking water catchments areas because I know that will be  
44 an issue that you will be looking at. I think no doubt  
45 this is where we have seen some of the greatest change over  
46 the last five years. We now have a much better knowledge  
47 of the condition of the catchment and we are continuing to

1 develop tools to analyse priority catchment health issues  
2 and identify priority sites for action.  
3

4 We have used, and we are using, a range of tools to  
5 protect the catchments and to deliver tangible  
6 improvements, including land use planning and development  
7 control, so we have a linkage with that system, programs  
8 for improved sewage management, riparian improvement and  
9 stormwater management, compliance programs that affect a  
10 wide range of water quality issues, ranging from sediment  
11 all the way through to pesticide use in the catchments, and  
12 systematic monitoring and review processes, and I think  
13 these organisational strengths have been confirmed by some  
14 of the recent analyses of the SCA's business by IPART  
15 consultants. But there is a lot more to do to improve  
16 catchment health, which of course is fundamental to water  
17 quality, and to improve our asset base, particularly in  
18 light of the ongoing and new challenges that we face, some  
19 of which you mentioned in your opening remarks.  
20

21 Right now we see the main challenges for the SCA  
22 business in three main areas. The first is what we would  
23 characterise as consolidation and implementation. At the  
24 same time, we need to expand the supply. While we have  
25 done a lot in five years, we really have only just begun.  
26 We now have in place I think a platform for effective and  
27 efficient delivery of existing supplies and we have new  
28 tools and we have an improved knowledge base, but it is  
29 clear that regarding the focus on delivering our catchment  
30 and asset management programs, we really have to  
31 concentrate on implementation.  
32

33 What we have learned over the past few years is that  
34 there historically has been a tendency to underestimate the  
35 time it takes to do things, particularly in two areas. One  
36 is the lead time needed to get systems in place and  
37 functioning for key activities such as catchment  
38 management. Our understanding the fundamentals of how  
39 our catchment systems really function has been very  
40 challenging, but it is crucial from a water quality  
41 perspective.  
42

43 The other is the scale of some of the tasks that we  
44 face. For example, we are just about to complete our asset  
45 condition assessment of all of our civil assets, and  
46 technically we call that the "failure, modes, effects and  
47 criticality analysis" as that analysis is actually telling

1 us that we have a real need for an extensive program of  
2 asset improvement programs in an ongoing way. So that  
3 implementation and consolidation of programs for catchment  
4 management and assets management is really important into  
5 the future.

6  
7 The second challenge, as you have mentioned in your  
8 opening comment, probably applies equally to other urban  
9 water agencies, and that is the continuing growth of  
10 Greater Sydney and the pressure on its infrastructure. The  
11 Government has recognised these when it actually released  
12 its Metropolitan Water Plan. That plan provides a  
13 long-term approach to achieve a sustainable and secure  
14 water supply for Greater Sydney over the next 25 years.  
15 Importantly, from SCA's perspective, it includes both  
16 short-term and long-term solutions and, probably more  
17 importantly, it also focuses both on demand management and  
18 supply sides of the equation, which are very important to  
19 us. It also takes action to improve river and catchment  
20 health, so it has a balance across all of those areas.

21  
22 For the SCA, which we consider to be really a  
23 relatively young business, the plan calls for the delivery  
24 of major new infrastructure projects in short time frames.  
25 We recognise the critical nature of these government  
26 initiatives and we have geared up to meet them. At the  
27 same time, understandably the pressures and increased costs  
28 on the organisation were not incorporated into the original  
29 business plan and need to be looked at quite seriously.

30  
31 From a financial perspective, building the essential  
32 new infrastructure on top of SCA's essential backlog asset  
33 maintenance will mean much larger capital expenditure and,  
34 consequently, increased debt. The delivery and management  
35 of these government requirements will be an important  
36 consideration for the IPART pricing determination.

37  
38 Lastly, the third challenge I wanted to comment on was  
39 the continuing drought, and that is in the context of what  
40 might be happening with climate change into the future.  
41 The continuing drought brings business uncertainties for  
42 SCA and those are reflected mainly in falling water sales  
43 and increased costs through continuing pumping of water  
44 from the SCA's Shoalhaven system.

45  
46 So, briefly, from my perspective, I think that we can  
47 show that SCA now has good systems and tools in place for

1 managing Sydney's bulk water supply, but there are  
2 substantial needs that remain in asset and catchment  
3 management and in new supply site programs to meet the  
4 significant pressures that Sydney faces, both for the  
5 short-term drought measures and for longer term urban  
6 growth.

7  
8 What I would like to do is hand over to Graeme to  
9 actually take you through some of the detail on the  
10 principal aspects of SCA.

11  
12 MR HEAD: I won't dwell on the parts of this presentation  
13 that are related to background, but I am going to provide a  
14 couple of minutes worth that I think will be useful  
15 particularly for people who have recently joined the  
16 Tribunal.

17  
18 The SCA's area of operations is about 16,000 square  
19 kilometres. Importantly, the hashed area of that shows the  
20 special areas that form part of the catchment. The special  
21 areas are the areas in which there has been no, or very  
22 little, development and the more pristine parts of the  
23 catchment.

24  
25 Where we differ from many other utilities, including  
26 ones that we are frequently compared with, is that we have  
27 extensive development in the outer parts of the catchment  
28 which requires our intervention in terms of catchment  
29 health initiatives. That's certainly one of the focuses of  
30 the McClelland inquiry's recommendations - the need to  
31 undertake catchment health initiatives in the outer  
32 catchment.

33  
34 The population served by the catchment is about  
35 4.2 million people and our capacity in the system is about  
36 2,500 gegalitres when the system is full, which is roughly  
37 four years worth of supply on average levels of demand,  
38 from top to bottom.

39  
40 I won't dwell on this. That is simply a schematic of  
41 the system. The important take-home message from that is  
42 the Warragamba Dam in the upper left-hand corner stores  
43 about 80 per cent of Sydney's water supply. The other  
44 storages between them store the remaining 20 per cent. The  
45 key thing about the system is that it is very flexible and  
46 has a considerable capacity to move water around the  
47 system. That capacity, which is not optimised at this

1 stage, constitutes an element of the Metropolitan Water  
2 Plan, particularly which relate to the proposal to transfer  
3 increased volumes of water from the Shoalhaven system into  
4 the Sydney system. That requires both modifications to the  
5 existing Shoalhaven infrastructure but also to the  
6 metropolitan dams and the conduits that connect them to the  
7 Shoalhaven system.

8  
9 Just a couple of relevant facts about the system at  
10 the moment. It is about 43 per cent full. It hasn't been  
11 in the 40s since the early 1980s. Last year was the second  
12 lowest inflows on record. The record has been only for  
13 about 100 years. The year of lowest inflows was in the  
14 drought in 1939-40, I think. We are in about the seventh  
15 year of this drought and, despite that, we have almost half  
16 of the available water supply remaining. I think this year  
17 we are on target to provide about the same volume of water  
18 as was provided to Sydney in 1957, so people have responded  
19 extremely well to the water-saving measures that have  
20 underpinned managing the drought.

21  
22 Just briefly, obviously we were established after the  
23 1998 water quality incident and the inquiry, headed by  
24 Peter McClelland, considered the future directions for the  
25 management of the catchment and the arrangements that  
26 should underpin those directions. Those arrangements were  
27 given effect through the Sydney Water Catchment Management  
28 Act. Importantly, that Act was reviewed last year.

29  
30 The report on the review determined that the objects,  
31 and in broad terms the terms, of the Act should continue to  
32 stand, so the arrangements that came into place in 1999  
33 will continue, albeit there are some minor modifications to  
34 respond to specific issues that will be dealt with through  
35 the Act review process this year prior to the next  
36 operating licence review.

37  
38 What I really want to concentrate on in this  
39 presentation is the SCA's internal systems and structures  
40 for responding to the arrangements put in place in the  
41 statute, specifically our risk management framework, our  
42 asset management framework, and what I will concentrate on  
43 most is our water quality management framework, given that  
44 in the mid-term price path review, the focus of questions  
45 to the SCA was really about what kind of systematic  
46 approach we will be taking to determine that what we are  
47 investing in catchment health is directly related to

1 drinking water quality.

2  
3 Corporate risk management plan broadly deals with  
4 three categories of risk: water quality risks, risks into  
5 infrastructure and reliability of supply, and business  
6 risks. The framework provides for identifying all of the  
7 risks to water quality at a catchment storage and delivery  
8 system level. They are identified and managed through the  
9 water quality risk management framework. Risks to  
10 infrastructure and reliability of supply include the full  
11 gamut of risks associated with the condition of assets, in  
12 the world post-2001, with security issues, other than the  
13 traditional use of that word, in water supply context, and  
14 also with response to drought.

15  
16 As Lisa has mentioned, those risks are identified  
17 through a quite systematic process of intentionally  
18 assessing the function of each asset, the criticality of  
19 that function and the condition of the asset, and then the  
20 outcomes of those assessments being put through our  
21 risk-ranking process. We are also regulated in New South  
22 Wales under a unique set of arrangements for dealing with  
23 risks associated with dam safety.

24  
25 Business risks include all the financial risks  
26 associated with what is an increasingly larger capital  
27 works program, but also the full range of risks associated  
28 with internal control, et cetera.

29  
30 Just briefly, the SCA's business plan drives all of  
31 our activity. The dark green shaded boxes on that slide  
32 show the key elements of the recently updated New South  
33 Wales total asset management framework. The SCA,  
34 particularly in the last two to three years, has focused on  
35 developing its service delivery strategy, which has been  
36 developed and adopted by the board. We have developed our  
37 asset strategy, which is required, and that is about to be  
38 considered by the board, and immediately after it has been  
39 considered, we will be producing the long-term investment  
40 plan, operations and maintenance plan, and disposal plan.

41  
42 Our annual capital expenditure programs and our  
43 long-term programs that underpin price path submissions  
44 will fall out of that process. We have not only been  
45 dealing with the strategic issues, though. We have  
46 undertaken those formica studies on all of our mechanical  
47 and electrical assets, and the process to assess all the



1 civil assets will be completed next month.  
2  
3 All of the issues identified in those assessments, as  
4 I said before, are subject to a risk assessment, and then  
5 we have what is called the asset improvement and  
6 reliability program, which implements the various actions  
7 that need to be taken to rectify any programs identified in  
8 that system.  
9  
10 The other critical thing that we have done in respect  
11 of assets is develop what have generally been regarded in  
12 the two external reviews as state-of-the-art tools for  
13 managing our asset system. We have a highly integrated and  
14 automated financial and management information system that  
15 links our financial systems with our fixed financial  
16 assets, with our asset maintenance system, contract  
17 management and procurement. That system, combined with the  
18 integrity of the data that's coming out of the condition  
19 assessments, has led the Water Services Association's  
20 benchmarking process to score us very highly in respect of  
21 the rest of the industry in how we are travelling on  
22 developing our asset management capability.  
23  
24 I think we are now going into the third year of  
25 implementing all of the actions that came out of the  
26 condition assessment of the mechanical/electrical assets so  
27 there has actually been a significant investment already in  
28 that asset improvement and reliability program.  
29  
30 This is where I want to essentially concentrate for a  
31 few minutes. IPART raised a number of points at the  
32 mid-term review about how it would be able to judge the  
33 success of our catchment management interventions and I  
34 guess the realistic nature or otherwise of any pricing  
35 submissions related to catchment health.  
36  
37 This is the water quality management framework that we  
38 use. It commences with our risk assessment process,  
39 identifying bulk water risk priorities, priority pollutants  
40 and the things that contribute to those pollutants  
41 representing hazards for drinking water quality. We then  
42 have a planning phase that considers the outcomes of the  
43 risk assessment. The regional environment plan required  
44 under the Act to deal with catchment health is soon to be  
45 gazetted. There has been a lengthy process to finalise  
46 that plan with extensive consultation. That second  
47 consultation process finished late last year and the

1 regional plan will soon be in place.  
2  
3 Importantly, the regional plan provides for  
4 rectification action plans for catchments and land use  
5 planning controls that we apply in respect of development  
6 in the catchment. That is a very important control tool  
7 for those outer catchments. Also in our planning phase, we  
8 deal with those things that guide our management of the  
9 storage and delivery system and we have an incident  
10 management plan.  
11  
12 Coming out of that planning phase, we have a number of  
13 programs, controls or treatments. Importantly for this  
14 part of the presentation, the healthy catchments program is  
15 how we really take forward the issues identified through  
16 the rectification action planning process and turn them  
17 into programs which then in the last phase can be measured  
18 in terms of their effects on water quality. The healthy  
19 catchments program is already in place.  
20  
21 I am going to spend just a couple of minutes on the  
22 approach we are taking in developing the rectification  
23 action plans. The Tribunal should note that it is a  
24 requirement in the regional plan, a legal requirement, that  
25 all of the rectification action plans are in place within  
26 five years of the commencement of the plan, but the SCA's  
27 timetable, given the plan has taken longer than originally  
28 anticipated to develop, is that all of those plans will be  
29 in place within three years of the commencement of the  
30 instrument, with the priority plans in place within about  
31 12 months.  
32  
33 Catchment is essentially broken up into drainage units  
34 for the purposes of developing rectification action plans  
35 and then those drainage units are assigned a level of risk  
36 in respect of where they are situated in the catchment.  
37 Typically those drainage units will be somewhere between  
38 2,000 hectares and 40,000 hectares. The SCA believes that  
39 this is a much more sensible and targeted way to look at  
40 the development of these plans, rather than doing them  
41 purely on a subcatchment basis.  
42  
43 Drainage units will then be given a risk rating.  
44 Essentially, risk modifiers at the top of the table weight  
45 those factors that can either exacerbate or reduce the  
46 pollution risks downstream of a source. The pollution  
47 source modules actually will then rate the concern we have

1 about particular pollutants on either a three-point or a  
2 five-point scale. There will then be a pollution source  
3 rating and the combination of those two processes will  
4 determine overall priority ranking for particular drainage  
5 units.

6  
7 A quick example of how that might work in a  
8 hypothetical drainage unit is that cryptosporidium would  
9 obviously be a high priority. The contributing sources may  
10 well be livestock defecation into streams. Geographic  
11 priorities, given where those streams are, could assign a  
12 high rating for livestock-related activity in, say, three  
13 of the drainage units.

14  
15 Rectification options would then be developed, and an  
16 example there is the stock exclusion or alternative  
17 watering points, where rectification design would identify  
18 property selection and the processes to be used for  
19 undertaking that rectification, and then the project  
20 through the healthy catchments program that could be  
21 implemented, for example, could be a grants initiative  
22 related to riparian fencing.

23  
24 Importantly, each of those phases is underpinned by  
25 our scientific program and which includes an extensive  
26 water quality monitoring program but also extensive  
27 modelling at different phases, and, of course, we have a  
28 monitoring and review process which includes water quality  
29 monitoring, our environmental indicators required under the  
30 operating licence, compliance assessment with our operating  
31 licence and our water management licence, but most  
32 importantly on this, the biennial catchment audit, which  
33 increasingly through this process will be able to identify  
34 more specific indicators of catchment health and the  
35 performance measures along particular time frames that will  
36 be used to assess progress against those indicators.

37  
38 Just quickly, in addition to the work we have done  
39 there, we have also been doing quite a lot of corporate  
40 management system reform. I mentioned the financial  
41 information management system, which has been, I guess,  
42 regarded by many as really a state-of-the-art approach.  
43 That's included upgrading our asset management system.  
44 We've market tested on a range of our large-scale monitor  
45 contracts and developed computer-based development control  
46 management systems and we are about to go online with a  
47 state-of-the-art catchment information system. There are

1 also some major corporate reforms dealing with operating  
2 efficiencies in the corporate services areas.

3  
4 In terms of our business performance, that table shows  
5 the original determination for our operating expenditure,  
6 the mid-term review of that and our actual. It is  
7 important to note in considering that performance that,  
8 during the last three years there, we have had to deal with  
9 pumping costs from the Shoalhaven, which have gone up to as  
10 much as \$6 million in a given year, as well as massive  
11 increases in insurance premium costs which the SCA has  
12 needed to internalise. We have managed to track pretty  
13 closely to that budget, particularly in the last two  
14 financial years.

15  
16 With capital expenditure, we are forecasting a likely  
17 expenditure of about \$130 million as against an original  
18 assessment of \$163 million and a mid-term assessment of  
19 \$145 million, and that reflects in particular delays with  
20 finalising the design on the Prospect Raw Water Station.

21  
22 As to our forecast capital program, our base program  
23 is mainly affected in those early years by the delivery of  
24 the Prospect Raw Water Pumping Station and some other  
25 critical projects. That project was notionally allocated  
26 in the original work for IPART at about a cost of  
27 \$25 million but that was before any detailed analysis or  
28 design had been done. The likely costs of the Prospect Raw  
29 Water Pumping Station are more in the order of \$60 million  
30 or above, and that's been factored into that design.

31  
32 The Metropolitan Water Plan is obviously the most  
33 significant driver for capital expenditure. Currently  
34 under way are the deep water access projects, which are in  
35 the order of about \$120 million. The major costs, though,  
36 are for stage 1 of the Shoalhaven scheme. Where we have  
37 differed with the work done by IPART by the Atkins review  
38 is that they have seen the addition of a year as a more  
39 realistic time frame.

40  
41 We have presented our information in terms of the  
42 current price path and a time frame which our consultants  
43 have indicated is achievable. But there's also a  
44 difference of opinion in the total quantum for stage 1 of  
45 about \$30 million. The SCA's figures on this were based on  
46 analysis done for us by Halcrow. There is an 18-month  
47 detailed design and assessment process on the options for

1 Shoalhaven. We don't believe that there's any better  
2 information on the table than that which was provided for  
3 us by Halcrow upon which to make that assessment at this  
4 stage. But, as the detailed studies are undertaken, we'll  
5 be obviously talking to IPART about what's coming out of  
6 those.

7  
8 Our projected operating expenditure is shown there.

9 Our opex is essentially held at real terms, and we have  
10 included in those final figures the opex costs associated  
11 with bringing the deep storages online from 2006/07 and  
12 also the environmental flow monitoring that will be  
13 associated with the environmental flow initiatives in the  
14 Metro Water Plan.

15  
16 Our revenue requirements which have been detailed in  
17 our submission are shown there in respect of both our capex  
18 and opex again. What shows is the major requirements  
19 associated with the Shoalhaven program.

20  
21 To fund our base program, our submission indicates  
22 that we require about CPI plus 2 per cent per annum and  
23 that the Metropolitan Water Plan initiatives which are  
24 critical long-term supply initiatives as well as drought  
25 mitigating measures require additional price increases of  
26 about 4 per cent. Our submission also details the  
27 commercial rate of return that would be typical for a  
28 utility such as ours. We do believe that the operating  
29 efficiency measures that Atkins have recommended in their  
30 review, given what we have had to internalise by way of  
31 increased insurance premiums from about \$1 million to about  
32 \$4.5 million, increased security costs, which have gone  
33 from \$1 million a year to between \$2.5 million and  
34 \$3 million, and those costs will continue. But the  
35 operating efficiency measures that have been recommended by  
36 IPART would have a negative impact on both our asset  
37 improvement program and our catchment health initiatives.

38  
39 MR REID: Thanks very much, Graeme. Going on the last  
40 slide you had there, the SCA has advised that to achieve  
41 their target rate of return of 6.5 per cent by the end of  
42 determination period, assuming it is a four-year  
43 determination period, you would require total annual price  
44 increases in the order of CPI plus 9 per cent. In the  
45 light of that, a number of the submissions that we have  
46 received have questioned and queried one of the major  
47 points of your capital expenditure program, which is the

1 Shoalhaven transfers. I wonder if you could shed some  
2 light on what alternatives you looked at to the Shoalhaven  
3 transfers to bridge the demand/supply gap for Sydney and  
4 how those transfers compare to those other alternatives.

5  
6 MR HEAD: All of that analysis is detailed in the  
7 metropolitan water plan. The Department of Infrastructure  
8 Planning and Natural Resources led an interagency process  
9 on developing that plan. The plan, of course, looks at a  
10 number of possible options to augment supply in the long  
11 term. As to the Shoalhaven process, the final decision on  
12 the form of the Shoalhaven transfer system is due to be  
13 taken next year after additional detailed examination, but,  
14 as IPART is aware, the least-cost planning exercise was  
15 undertaken and in considering the options in the plan, the  
16 Shoalhaven was considered as part of that.

17  
18 The SCA had some initial analysis on the Shoalhaven,  
19 which has been undertaken by Halcrow, and the costings that  
20 came out of exercise were used in the comparison in the  
21 plan, but the plan itself foreshadows both the detailed  
22 analytical process before a final decision is taken on the  
23 Shoalhaven as well as a very detailed consultation process  
24 with affected communities and interested stakeholders  
25 before that decision is taken.

26  
27 However given that the first stage is likely to  
28 proceed within the price path, it was agreed that it would  
29 be sensible for us to include the indicative figures that  
30 Halcrow produced as part of that submission.

31  
32 MS CORBYN: The Government has undertaken an extensive  
33 review of the widest range of alternatives in considering  
34 the metropolitan water plan. It went through every  
35 alternative that every agency and others could think of.

36  
37 MR HEAD: You are broadly aware of this but there are a  
38 range of measures in the plan. It is not a plan that  
39 simply deals with supply augmentation but it does recognise  
40 that even with optimal demand management outcomes given  
41 Sydney's continued growth and the need potentially to  
42 manage the climate change issue there would be a widening  
43 gap between supply and demand.

44  
45 The Shoalhaven is not the only supply augmentation  
46 option. Whilst the deep storages are specifically a  
47 drought-mitigation measure, they also add to the long-term

1 yield. There is a commitment to increase recycling in the  
2 plan, and I am sure that Sydney Water will talk about some  
3 of these things. Of course there is also a detailed study  
4 being undertaken into desal.  
5

6 MR SPANGARO: A follow-on question in relation partly to  
7 the Shoalhaven scheme: your capital program as outlined in  
8 your submission and reviewed by Atkins is a significant  
9 increase in overall terms from the capital program the SCA  
10 has run previously. My question would be on whether the  
11 SCA has confidence that it has the capacity to deliver what  
12 is a very significant increase in capital programs over the  
13 next four years?  
14

15 MR HEAD: Certainly I think that is a major focus. Both  
16 the board's efforts and the management team's effort have  
17 been to improve our performance in delivering our capital  
18 program. It is not unusual for new organisations,  
19 particularly when they inherit a range of existing projects  
20 from their predecessors, to take some time to sort through  
21 those issues. I think the work we have done on our asset  
22 strategy will assist us in that. I think the work that we  
23 have done on our systems for actually understanding what is  
24 happening with our assets and what activities genuinely  
25 need to happen in particular time frames is helping us to  
26 schedule better. Our capital performance this year will be  
27 much closer to the target than it has been in any other  
28 year since the SCA's operations.  
29

30 We have obviously also looked, on the metro water plan  
31 activities, at which things on our capital program can be  
32 rescheduled to allow us to focus partly on those issues.  
33 Importantly, even though there is a very tight time frame  
34 for the delivery of the two deep water access projects,  
35 they are both on track. The Shoalhaven scheme has been  
36 designed with an indicative time frame in mind. That is  
37 set out in the metropolitan water plan. The government  
38 obviously has committed to considering the detailed  
39 analysis. Of course, part of that analysis will indicate  
40 whether the preferred engineering options can all be  
41 delivered within that original indicative time frame.  
42

43 MR REID: The Sydney Catchment Authority is largely a  
44 fixed-cost business. In the pricing submission, you are  
45 suggesting a great reliance on usage pricing. I am just  
46 wondering how you propose to manage the associated revenue  
47 volatility that may develop on that great reliance on usage

1 pricing?  
2

3 MR HEAD: The submission also discusses the revenue  
4 volatility mechanism. Whilst we have seen quite a drop in  
5 consumption during the drought, consumption is generally in  
6 non-drought conditions reasonably predictable and we have  
7 factored in, and your consultants have independently  
8 reviewed the longer term demand projection. I think it is  
9 important not to overstate the revenue volatility  
10 implications of that particular move; but, of course, the  
11 submission acknowledges explicitly a mechanism to respond  
12 to that when, in fact, it does happen.  
13

14 MR RASIAH: Also, Colin, the proposal is to move to it  
15 gradually, so it is not, if you like, an immediate process.  
16 Over the period of time - as you know, the ratio is  
17 currently 50:50 - depending on what IPART allows in terms  
18 of price increases on the usage component, of course, that  
19 will be approaching 65:35. It is not, if you like, a  
20 dramatic shift from the current position over that period  
21 of four years and that gives time to also assess the  
22 impacts of that as we go along.  
23

24 MR SPANGARO: You talk a lot in your presentation about  
25 the strategies you are putting in place to undertake your  
26 catchment management responsibilities. They were very  
27 interesting to look at. You touched on the processes which  
28 you are putting in place to monitor the effectiveness of  
29 those catchment management strategies. The question I  
30 have, which is a difficult one, is whether you have any  
31 measures to assess the efficiency of the outcomes of those  
32 strategies.  
33

34 MR HEAD: Yes, in part. The first thing to point out  
35 there is that the parliament, when it considered the  
36 legislation to set up the SCA, said that there would be an  
37 independent process, which is the catchment audit, to look  
38 at these things.  
39

40 The first two catchment audits were, I guess, early  
41 information-gathering exercises. I think the third  
42 catchment audit was much more focused on using a  
43 conventional state of the environment model for reporting:  
44 so what are the pressures; what are the responses to those  
45 pressures; and how is the environment actually responding?  
46 That is a pressure-state response model.  
47

1 There are some easy things that we are developing good  
2 measures on in respect of sewage contamination in the  
3 catchment and reducing sewage loads through the healthy  
4 catchments program. I think some of the work underpinned  
5 by our large scientific project with the CRC on water  
6 quality and treatment is really looking at the importance  
7 of riparian buffers. That will allow us to develop  
8 measures. That will tell us not only where to intervene in  
9 respect of riparian health but how to measure the  
10 effectiveness of that. So there is, I guess, an evolving  
11 base of indicators in which not only bodies like IPART but  
12 the community more broadly can have increasing confidence  
13 in respect of how we are targeting those efforts and  
14 whether or not they are having the desired impact.

15  
16 It is also important to remember that there is an  
17 interface between what the Sydney Catchment Authority does  
18 on water quality related catchment management and what the  
19 catchment management authorities established across the  
20 state do in our catchment, and there are two of those CMAs.  
21 Obviously the Natural Resources Commission is setting  
22 targets related to broader catchment health issues, but  
23 there is an interaction between those two systems.

24  
25 MR RASIAH: To add to that, the water quality risk  
26 management framework is underpinned by an economic cost  
27 benefit analysis. The intention is that, as the benefits  
28 and costs become more evident, we will be examining that  
29 iteratively, so we will have a measure against that as  
30 well.

31  
32 THE CHAIRMAN: I would like to thank the Sydney Catchment  
33 Authority for its presentation and I will now ask the  
34 representatives for Sydney Water to come forward.

35  
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47

1 SYDNEY WATER CORPORATION

2

3 THE CHAIRMAN: Welcome, Mr Evans.

4

5 MR EVANS: Thank you, Chairman. My name is David Evans, I  
6 am Managing Director Sydney Water. On my right is Paul  
7 Freeman, who is our Chief Asset Manager and, in effect,  
8 chief engineer. On my left is Gavin Morrison, who runs our  
9 regulatory interface area and who has done a lot of the  
10 spade work on the preparation of this submission. Between  
11 us I hope we can cover the field.

12

13 I am aware we are a little bit late so I will move  
14 through this as quickly as I can. We have a series of  
15 overheads which are designed to do two things. One is to  
16 set the general context of our submission and the other is,  
17 as we are going along, to address some matters which I know  
18 the Tribunal has expressed an interest in.

19

20 There are a couple of contextual things. First of  
21 all, the submission was lodged last year well before  
22 Christmas. We welcome the sort of attention this process  
23 gets because it is very important to Sydney Water. There  
24 was media coverage, et cetera, when the submission was  
25 lodged and we welcome the opportunity now to clarify where  
26 we are coming from and then will await eagerly the outcome  
27 of IPART's deliberations.

28

29 What we want to cover is: our regulatory environment  
30 and asset base; how the organisation performs; what some of  
31 the key challenges are; the planning framework we operate  
32 in to give rise to our operating and capital outlays, which  
33 are essentially the things we are bringing forward to you  
34 to consider; what the price impacts of those would be, if  
35 we carried them out; and then how we deal with the customer  
36 impact of that.

37

38 It is worth just reflecting on the sort of historical  
39 context we are in. Sydney is a global city. I think we  
40 have been increasingly recognising that over the last  
41 decade and we have been able to look around the world to  
42 see some of the parallels that emerge with other cities  
43 which have gone through this transition. A classic example  
44 is the San Francisco Bay area of California where you get  
45 and old city like San Francisco spilling over through  
46 enormous growth through Oakland, San Jose, et cetera,  
47 Silicon Valley - the whole thing.

1  
2 There is a time when societies like this have to say,  
3 "Look, in light of the enormous growth that we are  
4 experiencing and projecting, what do we really have to do  
5 to reposition how we manage water?" There is a time when  
6 you have to take stock. I think we are very much at that  
7 time now where we have having to work through a much more  
8 sophisticated approach to demand and supply, to price, to  
9 diversification of supply source, et cetera, so we can cope  
10 not only with the population growth but also with the  
11 possibilities of climate change and so on. This price path  
12 is for the next four years. Really what we are seeing is a  
13 way of underwriting the sort of adjustment we have to make  
14 to deal with Sydney becoming the next San Francisco, in  
15 effect.

16  
17 The underlying assumption that I would have to go back  
18 to is that Sydney Water does not exist in isolation. We  
19 obviously draw very heavily on the work of the SCA that we  
20 have just heard about because they provide the bulk water;  
21 but more fundamentally Sydney Water really receives a  
22 bundle of entitlements from the community and in return for  
23 them we have to run the system. Those entitlements are  
24 many and varied but they really revolve around the role of  
25 IPART and the other regulators. We have an entitlement to  
26 service the customer base and manage \$20 billion worth of  
27 assets. That in turn means we have a capacity to charge  
28 customers, so there is a clearer set of accountabilities we  
29 have to aim up to, partly through this process.

30  
31 Obviously the Department of Environment and  
32 Conservation monitors sewer overflow abatement and waste  
33 water treatment plant performance. We also have to be able  
34 to accord to their requirements. Funnily enough, during  
35 times of drought, we always forget flood, but the truth is  
36 that Australia has a highly varied climate. We are not so  
37 much short of water; we just have lots of variation in its  
38 supply. So a lot of the expenditures we are making are to  
39 deal not only with drought and climate change and the  
40 things that are at the front of mind now but also to manage  
41 the inevitable fact that it does rain and you have to keep  
42 the sewer transport and sewer treatment system working well  
43 as well.

44  
45 I will deal with the area of operations vary quickly.  
46 The major point to make is that Sydney Water is a big  
47 organisation and is servicing a growing number of people.

1 I will return to that later. We are forecasting having  
2 5 million customer base by 2024. That is roughly  
3 equivalent to the population of Adelaide moving here over  
4 that time frame. That is the sort of challenge, as I say,  
5 that has had to be met in other cities. That does entail a  
6 lot more expenditure to provide for that growth in an  
7 orderly way.

8  
9 Part of the accountability, of course, is to get your  
10 system performance out there in the public domain. Through  
11 our operating licence and the audits of them, issues like  
12 water continuity, pressure quality, sewer overflows are all  
13 explicitly measured. The public record tells us that they  
14 are all on track with the requirements and the quality of  
15 service is generally improving.

16  
17 That relates to individual customers, but as the next  
18 overhead reflects it also relates to the more generic  
19 impact our activities have on the community at large. It  
20 is a fact that bathing beach quality has increased  
21 enormously in the last decade through work on the coastal  
22 plants. I will return to that later.

23  
24 The inland plants have had a lot of attention as we  
25 have recognised the fragility of those inland receiving  
26 waters to algal outbreaks and the like. A lot of money has  
27 been spent in achieving reductions in the nutrients and the  
28 other things that feed algal outbreaks. We have  
29 significantly reduced leakage by around 60 per cent since  
30 the early 1990s and we have a target to further reduce that  
31 by 2009. As I said earlier, complaints, customer  
32 satisfaction surveys and the like are telling us, we  
33 believe, that we are doing the right thing by the  
34 community. It is for others to ultimately judge that, but  
35 the point I wanted to make is that we do not operate in  
36 isolation from a regulatory regime that monitors and sets  
37 targets that we have to hit. It then becomes a question of  
38 how much do those things cost and how are we going to raise  
39 the money?

40  
41 That brings me to the next overhead on revenue per  
42 property. This is an indication in real terms of the  
43 average bill per property in 1992-1993 through to 2003-2004  
44 and what we are projecting in 2008-2009. It is shown in  
45 terms of dollars, but also in terms of the break-up of  
46 charges between the fixed component and the pay-for-use  
47 component. There are two fundamentals that I think you can

1 observe from that graph. One is that there have been very  
2 substantial revenue per property reductions to Sydney as we  
3 have imposed an efficiency regime on Sydney Water, adopting  
4 new technologies, et cetera, in the last decade. So  
5 charges per property have fallen substantially.

6  
7 The other thing is that the emphasis has been on a  
8 greater proportion of the bill being pay for use. That is  
9 for water conservation reasons. If you go back to the  
10 early 1990s, most people's bills would have been in the  
11 black area. The white area on top was the pay-for-use bit  
12 and probably, it being as small as it was, it is not  
13 surprising that people were a bit profligate with water  
14 use.

15  
16 The whole thrust in the last decade - IPART has been  
17 directly involved in a lot of this - has been to reduce the  
18 bill but to increase the pay-for-use component so that we  
19 have the conservation message in there for people. We are  
20 essentially proposing to increase the conservation  
21 component in the next four to five years, but to have some  
22 slight increases in the bill to pay for the things that  
23 Graeme and others have touched on - essentially the cost of  
24 growth, the cost of a bigger and more sophisticated city  
25 and the cost of elevated asset maintenance and the like.

26  
27 I will not dwell on all the detail in this graph on  
28 underlying operating cost because a lot of that material  
29 has been put forward in our submission. It reflects part  
30 of what I was just saying: there is a concept there we  
31 call underlying operating cost. So put aside capital  
32 costs, we have underlying operating costs. They have  
33 fallen over the decade, as I was explaining, and those  
34 underlying costs are forecast to continue to fall.

35  
36 However there are other things being put on top which  
37 we now have to plan for. The dark wedge in that graph is a  
38 set of particular extra operating and other costs we  
39 developed as a result of our asset management planning to  
40 ensure that the assets are maintained at a level which is  
41 least cost in the long run and there is some increase in  
42 that over the levels that were historically established.  
43 We have had that scrutinised by IPART's consultants. I  
44 believe they are of the view that that is an appropriate  
45 step.

46  
47 What is not shown on that graph are some of what I

1 call the "new wave" things. Some of them were mentioned by  
2 Graeme Head. They are the costs of providing for the more  
3 uncertain world of rapid population growth, climate change,  
4 et cetera. There are additional things here we have  
5 detailed in our submission but not shown on that graph  
6 along the lines of extra demand management activity,  
7 recycling, community education, subsidies for recycling  
8 schemes. I just wanted to make the point that while we are  
9 saying costs are going up, we are not saying we are taking  
10 our eye off the ball in controlling the underlying costs,  
11 the bread and butter matters.

12  
13 This slide is headed "Key challenges - manage assets:"  
14 The next thing worth touching on, which I think is often  
15 misunderstood is that the asset base we operate in is old.  
16 This graph, in the purple line there, is showing  
17 essentially how the asset base has been created. It  
18 happens to be length of mains, but the other assets show  
19 roughly the same pattern. Starting off 130 years ago, of  
20 course, there were not that many, but then there were some  
21 big booms in the 1930s and then again in the post-war  
22 period, and that has continued at a slower rate with growth  
23 more recently.

24  
25 I wish to make a couple of observations about that: it  
26 means that you do not have to rush out and replace assets  
27 straight away because often they have lives. That means if  
28 they were put in in the 1950s, you do not go and replace  
29 them in the 1960s, but there does come a time, as indicated  
30 by the purple line, where your rehabilitation expenditure,  
31 your length of mains, your replacing and relining or  
32 otherwise changing starts to grow. From roughly 1993-94  
33 onwards to now we have been in that phase.

34  
35 That is part of additional expenditures I have  
36 referred to. You do get to a time where, as a city matures  
37 in its age cycle, you have to start to spend on the higher  
38 levels of maintenance and replacement for the blocks of  
39 assets that were put in earlier.

40  
41 Unfortunately, this map relating to water scarcity and  
42 growth is a bit like a carpet in the front bar of a hotel.  
43 If you have really good eyes, what it is designed to  
44 illustrate is the growth question. Growth is a bit of a  
45 mixed message for a water utility like ours. It imposes  
46 greater challenges because you are squeezing more people  
47 into an available area or having to develop new areas. The

1 yellow areas out to the left are the south-west and  
2 north-west growth sectors, the Bringelly, Campbelltown and  
3 Rouse Hill areas. You have to basically spend to  
4 accommodate growth and growth tends to be more expensive  
5 than the original systems you serviced. Almost by their  
6 nature, you select the best dam sites first. You select  
7 the best areas for water and sewer reticulation first and  
8 then, like everything, you get into some of these  
9 diminishing returns of having to service people when the  
10 dam sites are no longer readily available and so on.

11  
12 The other side of the coin, though, is that growth, if  
13 it occurs, is usually a sign of social and economic  
14 success. Again going back to the parallels with, say, the  
15 San Francisco Bay area, the enormous growth they have had  
16 there has been a reflection of underlying restructuring and  
17 success of their economy, so they have a capacity to pay  
18 which comes up.

19  
20 I suppose if we play our cards right, what we are  
21 looking to do is to continue to be economically successful.  
22 That will encourage immigration. Immigrants will come to  
23 places like Sydney until someone does something to the  
24 contrary; but, hopefully, we as a society are in parallel  
25 becoming wealthier and we therefore have to pay the toll.  
26 I guess that is part of what I meant before about the  
27 historical evolution we are now in. Just touching on that  
28 - it bears a bit of repeating - accommodating nearly the  
29 population of Adelaide over the next 25 years is a pretty  
30 remarkable thing to be taking on. That obviously creates  
31 pressure in a range of areas.

32  
33 What do we do about that? I will not bother you with  
34 our internal business processes, but in the sort of world  
35 we are talking about where we have to look after this big  
36 stock of assets that were created in the past as well as  
37 managing for the future, you need pretty systemic  
38 decision-making systems. To be perfectly frank, we have  
39 put a lot of energy in the last few years into creating  
40 those. As I say, I will not go into all the detail, but it  
41 is very necessary now to define precisely what your  
42 required services and performances are going to be;  
43 namely, anticipate growth, know where the people are going  
44 to go, understand what your standards of service will be,  
45 the likely levels of demand for your product and so on.

46  
47 The second box I am returning to is: you need to

1 determine the business and required resources. That is  
2 jargon. It comes down to making sure you understand the  
3 capacity of your assets to deliver and to do it on a  
4 least-cost basis. Then you have to formulate capital and  
5 operating budgets to go about providing a service. Then  
6 you have to acquire and apply the resources.

7  
8 I suppose that is why we are here today. We are here  
9 to make a case for acquiring the resources, because that  
10 comes down to the charges customers face, and then,  
11 importantly, given the accountability structures, report on  
12 performance. That is why I put the stuff up at the start  
13 about how we are actually performing, and IPART has the  
14 capacity, along with other accountability mechanisms, to  
15 monitor the performance to make sure that if we spend the  
16 money we are requesting, we get the outcomes we are  
17 specifying.

18  
19 The purpose of this slide headed "Business planning  
20 framework" is just quickly to blow up the box there, which  
21 is the business process that gives rise to the operating  
22 and capital budgets which we bring forward in places like  
23 this. I think it is true to say that, if we go back  
24 20 years operating and capital budgets were based very much  
25 on what you did last year and a bit of capital rationing  
26 and the engineers would spread out on a table a list of  
27 possible capital requirements and make judgments about  
28 them.

29  
30 In a world that existed in, say, 1955 that was  
31 probably not bad. But now, there are all of the extra  
32 pressures I've referred to as well as the computer tools  
33 and the asset management to enable you to do undertake that  
34 process more systematically. The job of Paul Freeman, who  
35 is sitting on my right, is essentially to derive what we  
36 call asset management plans by category of asset - pumping  
37 stations, pipes, et cetera - systems to monitor their  
38 performance, make decisions about maintenance versus  
39 replacement, decide on capital programs when necessary to  
40 renew them and put them in a form where those systems are  
41 verifiable when people come in to look at them.

42  
43 I know the Cardno consultants that the Tribunal  
44 employed came in and had a look at those systems. That is  
45 partly why we welcome this process because there is not  
46 much use us putting all the energy into trying to make  
47 rational decisions if we cannot see that they can be



1 verified and inspected. I guess the outcome of that  
2 process was that they have basically endorsed the  
3 methodology by which we give rise to these decisions.

4  
5 If we have time we can go through a few examples of  
6 how that works through. That is all very generic stuff. I  
7 might get Paul Freeman briefly to explain how that  
8 translates into decisions budgets and expenditures.

9  
10 MR FREEMAN: If we take this one, for example, we have  
11 20,000 kilometres of water mains. About 18,000 of those  
12 are the typical mains that you would find in your front  
13 yard or the street, itself supplying individual  
14 householders. Essentially what we have is a planned repair  
15 strategy there.

16  
17 Now, the key challenge for us in developing a  
18 cost-effective program is to find the right balance between  
19 the level of maintenance you put into that and the level of  
20 capital investment that is the renewal of those mains.

21  
22 Now, as I'm talking, if you think in terms of the  
23 analogy of your own household plumbing system, essentially  
24 what happens is that you are unlikely to actually  
25 experience a failure in your household plumbing, just as it  
26 is very improbable that outside your home you will actually  
27 in your lifetime experience a failure in your main. Yet  
28 there are failures that occur in the water system.

29  
30 What Sydney Water does is try to then focus on an  
31 effective maintenance response strategy to that so that we  
32 minimise the consequence of that damage, the loss of the  
33 actual water, because that's very important, and the actual  
34 impact on customers associated with that. Overlaying that  
35 is the fact that at some point there will be a trigger to  
36 actually undertake further investigation because, as the  
37 mains get older, a few of them may perform in one  
38 particular location or area worse than the cohorts that  
39 exist around it.

40  
41 What we then try to do is take account, if you like,  
42 in more of an economic evaluation, the costs of us going  
43 out and repairing those mains on a frequent basis and a  
44 forward projection of that - the actual consequence costs  
45 to the customers, the road restoration, the repairs, the  
46 community loss which has been currently assessed by the  
47 Tribunal through the customer redress process - and

1 essentially try to do a balance between whether that main  
2 should be continued to be repaired or whether the actual  
3 costs of the consequences of that failure on an ongoing  
4 basis really justify that that main should actually be  
5 renewed, and that way when you add it up right across the  
6 system, you come up with a balance, an appropriate balance,  
7 between ongoing maintenance within the system and the  
8 renewals program that then flows from that. As we get into  
9 managing an older and older system, increasingly, as David  
10 forecast, the amount of renewals that you will be putting  
11 into that system will start to actually increase and so you  
12 will be renewing more of those mains.

13  
14 For the larger mains - and there are about  
15 3,000 kilometres of the really critical ones - the  
16 consequences of failure in these mains are quite  
17 significant. What Sydney Water aims to do here is to look  
18 for predictive tools that enable us to forecast or try to  
19 predict when a main is going to be nearing the end of its  
20 service life and make sure we can renew it and intervene  
21 before a failure occurs. Essentially, what we try to do -  
22 and this is a very simplistic diagram - is to actually do a  
23 desktop analysis across a length of critical main and to  
24 then, through a second phase, look at the risk of various  
25 elements across that particular main.

26  
27 Some of the things we'll look at in the desktop are  
28 the age of the main, where it is actually laid, the  
29 locations, the customers that are served, the material, the  
30 soils that it has been laid in, et cetera, and that will  
31 give us a bit of a profile as to where we should focus some  
32 more precise tools to try to predict the condition. With  
33 some of those tools, we will do some further soil testing.  
34 We might actually dig up and exhume, if you like, a portion  
35 of the main and have a look at it.

36  
37 That second phase enables us to then drill down to a  
38 third layer, where we will do a very expensive internal  
39 inspection with specialised equipment. We can actually do  
40 a further digging cut-off to get a sense of the extent of  
41 the damage, but what we are able to do is then focus and  
42 target down to those sections of the mains that need  
43 renewing, rather than just doing a slap-hazard renewal  
44 based on a 1950 engineering-type guesstimate or assessment.

45  
46 So we are increasingly using very sophisticated tools  
47 and techniques to really narrow down the expenditure and

1 still maintain to the community the same level of risk in  
2 continuity of water supply for those particular critical  
3 mains.

4  
5 MR EVANS: There is a lot more to that than we can describe  
6 now, but I think the important point is we are very happy  
7 to have the decision-making processes we use, to give rise  
8 to our maintenance and capital programs, scrutinised and  
9 understood. It is a very positive thing that we are  
10 engaging in the process here.

11  
12 I guess the question is as to what comes out of all  
13 that process, and this again is detailed in the submission,  
14 but it is essentially an indication of the capital program  
15 that we are proposing over the next five years.

16  
17 Going back a decade or so ago, annual capital  
18 investment was around \$300 million or a bit less. We are  
19 proposing a trend level of around \$500 million to  
20 \$600 million over this price path, and it is made up of the  
21 blue area at the bottom there, which is to meet existing  
22 standards that is essentially the outcome of the processes  
23 Paul was just describing, which are done by a range of  
24 asset categories.

25  
26 The brown area is for new standards, and I won't go  
27 into all that, but that is essentially licence conditions  
28 and the like. The blueish area is government programs.  
29 That is mainly backlog sewer. The green area is our own  
30 efficiency activities and the yellow area on the top, most  
31 importantly, is growth. Since the original submission, we  
32 have, in consultation with DIPNR and others, as more  
33 information has come to light, changed the shape of that  
34 curve a bit because some of the expenditure now is needed  
35 slightly later than it was in the earlier submission.

36  
37 The Tribunal expressed some interest in the  
38 expenditure on sewerage systems, and it is worth just  
39 spending a second or so on that. I think in a lot of these  
40 things you need what I call a 10-year perspective on what  
41 has been attacked and why. An analogy I would use is it's  
42 like if you are out fishing and pulling a heap of fish in a  
43 net. You tend to get the biggest fish out first, the ones  
44 that will yield you the highest return.

45  
46 If you look over the last 10 years, obviously that has  
47 been the case in New South Wales. We have put a lot of

1 effort into the coastal sewage treatment plants where most  
2 of the volume is and where we have achieved the improvement  
3 in beach quality. In more recent years, there has been  
4 about \$500 million spent on supplementary upgrades at  
5 Cronulla, Illawarra, Bondi and North Head - either  
6 expenditure in train or about to happen.

7  
8 You then say that the next bigger fish, if you like,  
9 is the inland sewage treatment plants, and there is around  
10 \$200 million that has been spent or is about to be spent on  
11 a range of nutrient reduction and other activities to deal  
12 with the inland sensitive waters. Then the next fish is  
13 the sewer transport network, which in wet weather, we often  
14 forget when there is a drought on. It suffers from  
15 intrusion and illegal connections and all sorts of things.  
16 The expenditure there has been in recent years about \$900  
17 million. About half of that was on the North Side Storage  
18 Tunnel, but there has been a range of others on sewage  
19 pumping stations, dry weather overflow upgrades, about  
20 \$200 million, and a range of what I call hot spots programs.

21  
22 Now, taking the forward view, the next set of fish  
23 that are in the net is the movement to further refine what  
24 are called the distributed performance of the sewer  
25 transport system. A lot of the stuff we have just been  
26 through is what we might call "point source solution". The  
27 distributed part of the system is the 20,000 kilometres of  
28 mains and finding the spots in there where there are  
29 weaknesses through targeted maintenance, relining, a range  
30 of things, what the focus is for this next price path, and  
31 we think we are very close to having that reflected in DEC  
32 licence requirements, which will see us spend about another  
33 \$168 million over the price path on those waste water  
34 transport activities.

35  
36 Some of the other expenditures there are the other  
37 things I have touched on as I have gone along. You will  
38 see growth is very important, and down the bottom, leakage  
39 reduction and water and sewer main renewals are important.

40  
41 I suppose the general point I want to make is that the  
42 improvements I have been talking about to meet the  
43 requirements of the city do cost, and that is what we are  
44 doing to yield the gains.

45  
46 Now, is it done efficiently? You might say that is  
47 all very nice, but do you have people sitting around doing

1 nothing and feasting on the public purse here? I wanted to  
2 make a couple of points here. First of all, on the capital  
3 side, the vast majority is procured via the market through  
4 a variety of means which we think are pretty  
5 cost-efficient. We bundle contracts, et cetera. So we are  
6 of the view that there is a fair bit of market testing of  
7 the capital side of what we do, and we are happy to have  
8 that scrutinised as well.

9  
10 I put this up because I think it is something that is  
11 worth remembering, and it relates to the growth question I  
12 was raising before. These all turn out to be yellow lines  
13 when you put them on the wall. But what I can tell you is  
14 that the line there that runs at roughly three per cent is  
15 the CPI, so that is what prices tend to get adjusted for if  
16 you have a CPI-type outcome. So if your wage goes up by  
17 three per cent, it keeps paying the rent, but the other two  
18 lines are construction cost indexes - construction industry  
19 , engineering construction.

20  
21 I guess it gets back to the point about the global  
22 city and the growth rates. In recent years, some of these  
23 construction indexes have been going up at six, seven,  
24 eight per cent - as the price of sand, price of concrete,  
25 price of steel hits the world economy as well as the cost  
26 of construction in this congested city. So I think we have  
27 to be very careful when we acknowledge that we are spending  
28 more on capital to not assume that you can somehow fly in  
29 the face of some of the cost trends that are emerging from  
30 these graphs, and it is one area where we did have some  
31 disagreement with the consultant reviewers, who were of the  
32 view that you could drive down the cost of capital  
33 acquisition. If you have the market providing it to you  
34 now and the market itself is under those sort of cost  
35 pressures, it's not a simple matter to somehow hold back  
36 the time.

37  
38 This is operating expenditure which is sort of the  
39 other half of the ask we have of the Tribunal. I guess the  
40 simple point we're trying to make here is that some of this  
41 expenditure is controllable and some is not. On the  
42 controllable stuff, we are in there driving as hard as we  
43 can to get costs and have foreshadowed how we'll continue  
44 to do that. If you look at the purple part or whatever  
45 that colour is, that red/purple colour, there are a lot of  
46 costs there that are not that controllable.

47

1 Water filtration tariffs are embodied in a long-term  
2 20-year contractual agreement with the companies that run  
3 the water filtration plants. Bulk water purchases, 16 per  
4 cent - and based on what we just heard from SCA, they are  
5 asking you, for good reason I think, for a substantial  
6 increase in the cost of those bulk water purchases. Well,  
7 if that is what happened, that is what happens, and we  
8 cannot not pay the bill. Others are things like  
9 electricity, materials and contractors and the like. The  
10 general point I want to make is it again is not a simple  
11 matter to squeeze blood out of a stone there. You have to  
12 operate on a basis which you can control.

13  
14 What does that do then in terms of ultimate outcome?  
15 We have publicised before, and we are repeating in the  
16 submission and again today, that the capital works and  
17 maintenance program we believe is appropriate will result  
18 in a trend increase in real terms of about 2.4 per cent in  
19 costs, and Sydney Water's participation in the Metropolitan  
20 Water Plan actions are about another 0.8 per cent. After  
21 that, as the debate in the national media is drawing  
22 increasing attention to, the actual price outcomes that  
23 people like IPART determine are driven by judgments about  
24 the cost of capital for infrastructure.

25  
26 If we follow debate about coal exports and the like,  
27 there has been a lot of coverage of how price regulators  
28 set rates of return in places like Dalrymple Bay, and what  
29 is a reasonable rate of return or opportunity cost to  
30 capital to put on infrastructure. I think there is an  
31 increasing recognition in that national debate that you  
32 have to set returns that are sufficient to pay for the real  
33 cost of that infrastructure, or the private section in  
34 particular otherwise doesn't choose to make the investment.  
35 That's a matter for IPART to determine, but our existing  
36 returns are very low.

37  
38 No-one would build a coal loader or even think of it  
39 on the returns we presently have, and we have just made for  
40 the purposes of modelling an assumption that IPART might  
41 see it appropriate for returns to rise to about 6.5 per  
42 cent by 2008/09, and if that was the outcome, then the  
43 cumulative result would be trend increases of about 4.6 per  
44 cent per annum for the next four years. That was the basis  
45 of the earlier graph I had up there. I think we need to  
46 put that in some context. First of all, there have been  
47 very much greater and more substantial total charging

1 reductions in the previous decade and, secondly, that comes  
2 to about \$30, I think it is, a year or 60 cents a week for  
3 the average household.  
4  
5 Of course, charges have recently fallen quite  
6 substantially as a percentage of average weekly earnings.  
7 If that's the total quantum of revenue you want, the next  
8 question is the structure. We, as I have already said,  
9 support increased reliance on the pay-for-use component  
10 rather than the fixed component, and so we have suggested  
11 that the total revenue increase we have discussed on the  
12 previous slide be distributed roughly on a 4:1, 5:1 basis  
13 in the usage component and, therefore, there would be  
14 increase in usage charges greater than the fixed component.  
15  
16 The question of whether that happened by way of just a  
17 generalised increase or a stepped price is a matter which  
18 involves a lot of consideration of equity, I think, and a  
19 matter for IPART to consider, but from our point of view,  
20 the bottom line is that you have two models. You can go  
21 with around \$1.40 for everybody and achieve a given level  
22 of demand management and, therefore, capacity to cope with  
23 the growth of the city, et cetera, in conjunction with the  
24 other things in the Metro Plan, the recycling, et cetera,  
25 or you could go with an increase in block tariff, in which  
26 case the underlying increase wouldn't have to be quite as  
27 great, but people who use more water would pay more. Now,  
28 that is, in my view, largely an equity question and,  
29 therefore, something appropriate for IPART to consider,  
30 rather than for us to make a pronouncement on.  
31  
32 Before I get on to the equity impacts, there is a  
33 whole set of issues which time doesn't permit us to go into  
34 in detail today but which I think are important about  
35 pricing of recycling water. We want recycled water to be a  
36 much bigger part of our future, and there is a requirement  
37 under the basic scheme for developers to achieve a  
38 reduction in water or an improvement in water efficiency  
39 for new developments, and one way to do that is to have  
40 dual retic systems and the like. Rouse Hill is an example  
41 of that.  
42  
43 We believe that what is necessary there is to  
44 basically have a cost-reflective, efficient pricing regime  
45 for recycled water which draws on many of the principles  
46 IPART has already established for potable water. The  
47 essence of the deal, I believe, has got to be to consider

1 objectively the full cost of provision of recycled water to  
2 make allowance for the avoided costs that we would avoid by  
3 not having to use so much fresh water and then make a  
4 decision about the cost recovery of the recycled water  
5 based on an allocation to develop a charge, and some of it  
6 to the annual charge.  
7  
8 The annual charge, in principle, should reflect the  
9 variable cost component so that you encourage people to use  
10 the recycled water at the right level, not to over-use or  
11 under-use it, and these charges need to be calculated on a  
12 catchment-by-catchment basis because the cost of achieving  
13 recycling is highly heterogeneous, more so than for  
14 providing raw water, because recycling tends to be very  
15 much site-specific and it depends, amongst other things, on  
16 proximity to sewage treatment plants, topography, et  
17 cetera. So we believe that needs to be worked through on a  
18 disaggregated basis virtually by catchment by catchment  
19 based on principles which IPART will endorse. I am happy  
20 to talk more about that later.  
21  
22 I guess when you come to the question of the customer  
23 base, we acknowledge that increased emphasis on  
24 pay-for-use, which is part of a 10-year trend. We have  
25 done 10 years of it and we are proposing to do some more of  
26 it. It does produce some pressures on households, but I  
27 think often those pressures are overestimated. I think the  
28 first thing to note is that we are about halfway through  
29 the adjustment process, or more than halfway actually.  
30 That earlier graph showed that the increased reliance on  
31 pay-for-use has been pretty substantial already.  
32  
33 What history has taught us is that two things happen  
34 in a situation like that. One is that people can manage  
35 the impact on them to a degree by changing their  
36 consumption, and there are a range of ways that can be  
37 done. The present drought shows us that people can do that  
38 through limiting outdoor use, but it can also happen  
39 through appliance-purchasing, et cetera. Technology often  
40 helps there too. So there are adjustment mechanisms.  
41  
42 Secondly, we know, though, that usage by large  
43 customers can be more nondiscretionary, although we can use  
44 water efficiency initiatives, et cetera. We propose to  
45 assist the large households and low income customers  
46 through a range of measures I have outlined there, such as  
47 an elevated program of residential retrofits to subsidise

1 further the appliances that will allow you to control your  
2 in-house use and more explicit assistance through welfare  
3 agencies with the purchasing of water-efficient appliances,  
4 and we can go into more detail on that later if it is  
5 necessary.

6  
7 There are also increased payment assistance schemes.

8 That is essentially a welfare payment arrangement for  
9 tenants and retaining the current pensioner rebate  
10 structure.

11  
12 Regarding business customer impacts, some businesses  
13 use lot of water, and increasing pay-for-use impacts on  
14 them. It is true for irrigators, it is true for  
15 energy-intensive industries, breweries or whatever they may  
16 be. I think the lesson we have learnt nationally in the  
17 last decade is that you can't hide from that, though. If  
18 you are using water and it is scarce, whether a cotton  
19 grower or a brewer or whatever you are, if the water is  
20 scarce and it will be priced to reflect that scarcity, that  
21 is a legitimate business cost and it has to be managed. I  
22 think that is an important part of the signalling of  
23 economic evolution to this whole Sydney region which we all  
24 have to face up to. We are becoming more a service sector  
25 economy, et cetera.

26  
27 It doesn't mean we take it lightly, and we have a  
28 range of processes where we liaise with business to advise  
29 them on water-efficiency opportunities, assist with  
30 recycling schemes, et cetera, and there is going to be a  
31 \$15-million-a-year demand management fund as a source of  
32 funds to subsidise demonstrated water savings and  
33 alternative supply of recycling initiatives.

34  
35 That pretty well brings me to the end. The summary, I  
36 hope, speaks for itself. We believe the proposed  
37 expenditure is justified. It is to provide for a bigger,  
38 bolder and hopefully wealthier community. We are taking  
39 our share of the burden in improving efficiency. We have  
40 to value water properly and IPART has undertaken a robust  
41 process to test the veracity of the expenditure proposal,  
42 and we welcome that because we don't want to be wearing a  
43 situation where there's not some public scrutiny of what we  
44 are proposing.

45  
46 MR SPANGARO: You have shown us Sydney Water is  
forecasting  
47 a significant increase in growth expenditure. Presumably a

1 significant proportion of that is to fund growth in the  
2 north-west and south-west sectors.

3  
4 MR EVANS: Some is, yes.

5  
6 MR SPANGARO: Including, as I understand, some expenditure  
7 on recycled water schemes. Given that there have been a  
8 few government statements about encouraging greater  
9 involvement of the private sector in meeting the demands of  
10 those growth sectors, are you confident that Sydney Water  
11 will be responsible for delivering all of that growth  
12 capex?

13  
14 MR EVANS: We are planning for expenditure - this is a  
15 four-year price path we are talking here. I think Graeme  
16 made the point before about having to understand lead times  
17 in providing infrastructure. When you look at all the  
18 things you have to do, planning development consents, et  
19 cetera, to get people being able to build a house in  
20 year 4, then you can't afford to be standing around  
21 wondering if someone else will do it in year 1.

22  
23 The expenditures we are proposing there are to get us  
24 through the next four years. If the private sector comes  
25 on board, that is terrific, but that would be, I think, for  
26 a lot of things that might flow towards the end of that  
27 period or into the next period, and in the event that, say,  
28 there were assets created there that were passed to the  
29 private sector as some sort of a deal, whatever the  
30 consequences of that were in terms of price regulation,  
31 that could be picked up in any subsequent adjustment to the  
32 regulatory asset base.

33  
34 I suppose the simple answer I would give is we are  
35 going ahead with the just-in-time stuff here to make sure  
36 things are ready. But I do think your point is of  
37 relevance that if the private sector is to be involved,  
38 which we would all welcome, the systems of charging for  
39 their customer base will have to be sufficient to justify  
40 them taking the shareholders' funds and putting them into  
41 these activities, and that is an important reason why I  
42 think there has to be some thought given, as I hinted at  
43 before, on the issues of return, the Dalrymple Bay question  
44 does have to be taken into account.

45  
46 MR REID: Obviously to make pricing reform worthwhile, you  
47 need to get the pricing message through to the end

1 consumer.  
2  
3 MR EVANS: Yes.  
4  
5 MR REID: A number of submissions have touched on the fact  
6 that there are a number of households that are not  
7 individually metered and there are also a proportion of end  
8 users - for example, renters - who do not receive a bill  
9 directly from Sydney Water. I am just wondering how you  
10 are resolving those two factors, relative to other demand  
11 management initiatives being undertaken by Sydney Water and  
12 other arms of government - so that is one part of the  
13 question - and the second part of the question is, and you  
14 have answered it in part: in a letter to the Tribunal dated  
15 November last year, the Premier stated that the Government  
16 strongly supports the introduction of adequate safeguards  
17 for large and low-income families, with such discounts or  
18 incentives to be funded from Sydney Water's revenue base  
19 and recovered in its pricing structure. So there's a  
20 double-barrelled question there, if you like, on pricing.  
21  
22 MR EVANS: The first one is the question of how do you  
23 manage a backlog of 150 years of development where, in lots  
24 of flats and units, individual units are not metered, and I  
25 think there are a couple of observations about that. First  
26 of all, from a standing start, we would all prefer everyone  
27 was metered. It would be terrific to have time of day  
28 meters and things that ring an alarm bell if you left the  
29 hose on and all that sort of stuff, but you do have to play  
30 with the technological cards that you have been dealt, and  
31 so I believe that over time metering technology will become  
32 a lot cheaper and we will be able over time on a  
33 cost-effective basis to make a lot of these changes.  
34  
35 But one thing that has to be remembered is that  
36 metering water involves a physical measure of a low value,  
37 high-volt product, so it isn't as simple as people might  
38 think to implement a lot of the more - you sit at home on  
39 your PC and you see all the things that can be done with  
40 computers and you think surely we can somehow sense water  
41 use, but it isn't quite as simple as that. So there is a  
42 cost to it and what we need to do is implement these  
43 specific metering arrangements over time as those costs  
44 come down and make it justifiable, and you do it with your  
45 new housing stock as it comes through.  
46  
47 In making that judgment, you also have to remember

1 that the vast majority of the places that are not metered  
2 are properties with much lower discretionary use than the  
3 ones who are. To put it simply, people with gardens  
4 industrial users are metered, and have been for a long  
5 time, and the discretionary use is greater there, so what  
6 we have to do is make sure we hit the areas that have the  
7 greatest discretionary use, then pick up this backlog  
8 subsequently as the technology and the cost-effectiveness  
9 makes it worthwhile.  
10  
11 MR REID: On the question of managing the social impacts --  
12  
13 MR EVANS: They were the matters I mentioned there and  
14 I think our submission goes through those, and they have  
15 cost implications that would have to be paid for.  
16  
17 MR REID: Obviously one of the possibilities in  
18 restructuring tariffs, as you say, is introducing a block  
19 tariff. Can you outline for us the administrative and  
20 billing implications for Sydney Water of introducing such a  
21 scheme?  
22  
23 MR EVANS: Well, I can't do that myself in detail off the  
24 top of my head, but what I can do is we can get your  
25 supplemental answers back, but I am advised the essential  
26 position is that with billing systems, anything can be  
27 done. You have to remember bills have been sent out for  
28 hundreds of years and it is a question of the cost and the  
29 flexibility, but I think myself that, while that will incur  
30 some additional costs, the decision is really more one of  
31 judgment about equity, of who bears the burden of demand  
32 reduction.  
33  
34 MR REID: On the question of recycled water, you were  
35 talking about making that catchment specific. Obviously we  
36 would have postage-stamp ,uniform pricing across Sydney's  
37 area at the moment. Do you see that suggestion of  
38 introducing catchment to city charges for recycling water  
39 ultimately moving to potable water and waste water  
40 services?  
41  
42 MR EVANS: That's a harder one to predict than the future  
43 of metering technology. What I would say is the view that  
44 we ought to try to do it by catchment for waste water has  
45 no implications either way for water. It's just a desire  
46 to get the right price signals and the right incentive  
47 structures out there for something which is much more

1 variably costed than water is. So it shouldn't be read in  
2 any way as an indication of wanting to dismantle  
3 postage-stamp pricing.

4  
5 In terms of worldwide experience, postage-stamp  
6 pricing in general is in existence pretty well everywhere  
7 and I think there are some good reasons for that. It's not  
8 to say that you can't dismantle it to a degree if you  
9 really want to, but you have to always ask what is the gain  
10 you are going to get, what is the behavioural change you  
11 will get, what is the efficiency you will get from it,  
12 because in the end that is what you are looking for -  
13 something that will make the world a more efficient place.

14  
15 The cost of distributing water around, while it varies  
16 by catchment, is not anywhere near as variable as the cost  
17 of treating, transporting and reusing waste water. It is a  
18 lesser priority, but it will be over the next 20 years, I  
19 think, an important matter that will have to be looked at,  
20 particularly - this is a much bigger topic than we have  
21 time for today - if competitive models of service delivery  
22 are countenanced.

23  
24 I know IPART has been looking at this in a different  
25 forum. Postage stamp pricing does have the capacity to  
26 generate perverse outcomes when people can "cherry pick".  
27 That often is not efficient because it just enables people  
28 to arbitrage the relatively cheaper customers at the  
29 expense of the others and then perhaps results in  
30 investment patterns that are suboptimal, when you add it  
31 all up. I think that is a matter that would take a lot  
32 longer than the eight seconds we have left today.

33  
34 MR SPANGARO: I have a final question in relation to  
35 miscellaneous charges. Sydney Water is proposing a late  
36 payment fee for accounts that are not paid on. Can you  
37 tell us what your justification is for this and whether you  
38 are confident that will not add to the hardship of those  
39 who can least afford to pay?

40  
41 MR EVANS: The justification, as for most things we try  
42 and do, is to ensure that there is a cost reflectivity in  
43 the services we provide and, to the maximum extent  
44 possible, we do not ask someone else to bear the burden of  
45 the cost imposed by someone who makes a discretionary  
46 decision. A lot of people - I bet a lot of us in this room  
47 are in this category - do not quite pay their bill because

1 of whatever reason. The consequence of that is we have to  
2 send out letters of reminder. Those processes can become  
3 quite drawn-out and they all cost.

4  
5 We are of the view that we want to encourage people to  
6 focus on their bill, to pay their bill. We notice that the  
7 electricity utilities and others have late payment fees,  
8 therefore we think it is probably justified, but we would  
9 want to introduce it with two conditions: one that it be  
10 slow with plenty of advance notice so people would have an  
11 opportunity to realise that they might be in for a payment;  
12 and, two, that it be a level to reflect the cost of chasing  
13 them up. So you do not want to make it \$20; you want to  
14 make it something that says, "We have to write letters, we  
15 have to make phone calls and we have to chase, chase,  
16 chase." It should be a figure that represents the  
17 reasonable cost of doing that.

18  
19 THE CHAIRMAN: Thank you very much, David and your  
20 team. We are going to break for morning tea and we will  
21 resume in 15 minutes time.

22  
23 SHORT ADJOURNMENT

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1 HUNTER WATER CORPORATION

2

3 THE CHAIRMAN: I will hand straight over to Mr Young to  
4 present on behalf of the Hunter Water Corporation.

5

6 MR YOUNG: My name is Kevin Young, managing director of  
7 Hunter Water. I have with me Geoff Dyce and Andrew Amos -  
8 both well known to the Tribunal - who have been putting  
9 together the pricing submission.

10

11 I would like to cover the key issues that have been  
12 raised by IPART and I will put that in the context of our  
13 submission as well, starting off with a snapshot; system  
14 performance. Capital expenditure and growth; our price  
15 proposals in general terms; and then some account payment  
16 which has been raised in the submissions.

17

18 The snapshot of the Hunter Water is that we have a  
19 population of about 500,000 people. The area serviced is  
20 over 5,000 square kilometres. The area is similar to  
21 Sydney but with a ninth of the population and that creates  
22 some unique difficulties for us as a utility. We cover  
23 five local government areas, 200,000 connections, 93 per  
24 cent are residential and only 7 per cent non-residential.  
25 Interestingly the 7 per cent non-residential make up 35 per  
26 cent of our water consumption. There has been a change  
27 over the 10 years. I think non-residential used to make up  
28 45 per cent before we had some major industries leave town  
29 and you can see a major change in our area from much  
30 emphasis on non-residential to a major growth in  
31 residential area. Tariff income is around \$130m, and we  
32 have 428 employees.

33

34 It is probably interesting to look, as a perspective,  
35 on the last decade or so of Hunter Water and how it has  
36 changed. We have had a pretty unique perspective in being  
37 the first organisation to be corporatised, the first  
38 organisation to introduce user pays. David Evans our  
39 colleague from Sydney Water was previously talking about  
40 the changes they are going through in water use pricing, I  
41 think Hunter is in an interesting position in that  
42 virtually all our charge is water use, and I think we can  
43 go back probably to earlier Dr Patterson's days of  
44 influence on the organisation. That has meant that Hunter  
45 customers for the last decade have had the lowest or equal  
46 lowest water consumption per household of all the  
47 metropolitan agencies. That has made a big difference to

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1 our area.

2

3 We have also made major changes in terms of cost  
4 reform and efficiency. We often quote that since 1991 - I  
5 acknowledge IPART regulators and stakeholders are part of  
6 this - we have had a 45 per cent reduction in operating  
7 costs per property over that period. At the same time, we  
8 look back and we see all of these factors that have  
9 increased our cost, which is around 15 per cent. As an  
10 organisation, we have had a 60 per cent underlying  
11 operating cost reduction per property since 1991. That has  
12 lead to significantly lower bills for the typical customer  
13 in the Hunter.

14

15 Our key regulators are: IPART importantly setting  
16 performance standards and operating licence system  
17 performance standards; in Sydney it is split between the  
18 Catchment Authority and Sydney Water; in the Hunter we do  
19 the whole water life cycle from capturing water in our  
20 dams, water treatment and distribution, waste water  
21 treatment and disposal, and reuse. We have a licence with  
22 DIPNR for harvesting water. Also importantly with our  
23 Department of Environment and Conservation, we have  
24 effluent quality licences - the waste water transport  
25 systems, pipe networks and treatment plants.

26

27 Our system performance is driven largely by two  
28 regulatory instruments - this is an issue IPART asked to us  
29 look at and comment on - namely, our operating licence, of  
30 course, through IPART, which covers a range of customer  
31 issues on water quality, water continuity, water pressure  
32 and sewer overflows and our DEC licences, which in the past  
33 covered our waste water treatment but are now increasingly  
34 covering our waste water transportation systems.

35

36 Commenting on operating licence performance, at Hunter  
37 Water we think our historic performance is generally very  
38 good in meeting our licence. I think we were the first  
39 organisation to have an operating licence when it first  
40 started in 1991. There had been issues over time - and  
41 that is more than a decade now - at different times with  
42 water pressure, sewer overflows and now water continuity,  
43 which we have dealt with. A lot of this has been in  
44 discussion with IPART.

45

46 I have a few diagrams here to cover a long-term  
47 perspective. The diagram on the top left-hand corner

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1 relates to faecal coliforms which is one of the critical  
2 criteria for water quality. I think one of the points that  
3 Hunter Water can be proud of is that we have always  
4 consistently met the Australian standards for drinking  
5 water. The trick in this area is that it is important that  
6 you are above the line on that graph headed "Faecal  
7 Coliforms".

8  
9 I appreciate this slide is a bit light on the screen  
10 but for sewer overflows on the top right-hand corner, we  
11 came very close to the licensed standard in the earlier  
12 years. What we have seen over that period has been a  
13 significant drop down. Through, I think, conjunction of  
14 the scrutiny that comes through the operational licence  
15 audit process, improved asset management practices and  
16 better efficiency by outsourcing a number of those areas,  
17 we have seen improvement in those areas.

18  
19 I will talk about water continuity -this has always  
20 been a tough one for the Hunter - and water pressure  
21 separately. As a bit of a geography lesson. I said that  
22 Hunter Water covers the same geographical area of Sydney  
23 but with a ninth of the population. We talk about our  
24 system as being the five fingers going to the areas in  
25 yellow, which are the population areas. You will see out  
26 in the Cessnock-Maitland area long thin trunk main lines  
27 going up to Port Stephens and Nelson Bay and then major  
28 lines running on the western and eastern side of Lake  
29 Macquarie. That gives us a unique vulnerability in long  
30 length trunk mains.

31  
32 That has meant that while our water continuity  
33 performance can be good in most years, we can come close to  
34 the measure in some years. In fact last year, we just went  
35 over with a couple of critical trunk main failures.

36  
37 With pressure as well - I appreciate it is hard to see  
38 on this slide - but in one year in particular we came close  
39 to the standard looking back over four years but generally  
40 we have been way down. Why did we come close that  
41 particular year? That was because we had a summer that  
42 occurs about once in every 12 years, those summers with the  
43 hot 40 degree temperature plus and westerly winds that  
44 meant the stress on the system caused us to come close to  
45 meeting our pressure standards, but most years we do quite  
46 well.

47

1 Operating licence performance: this raises a longer  
2 term and the Tribunal asked to us comment on the link  
3 between operating licence standards and expenditure. For  
4 our licence review coming up, in the Hunter's view, it  
5 raises the question: is the standard set by IPART absolute  
6 or risk based? - we have talked a lot about risk base  
7 becoming part of the industry - and are our standards  
8 relevant to normal operating expenditure which we will  
9 occasionally breach? For example, with pressure, I cannot  
10 guarantee that we will always pass that. Once in every  
11 20 years, we may have such an event that we will come close  
12 or tip over and there is the continuity based on a  
13 risk-based approach of what we see as the vulnerability of  
14 the Hunter system. So there are no absolutes in this. It  
15 is a question of the dollars spent versus the risk versus  
16 the trade-offs.

17  
18 What we are doing with IPART, and I think this is  
19 showing the strength of the process with the scrutiny, is  
20 reviewing what we see as our critical trunk main  
21 expenditure and what are the condition assessments telling  
22 us in terms of what we need to spend and what are the  
23 trade-offs? We know simplistically that we could duplicate  
24 all our trunk mains to give us greater system reliability,  
25 but that would come at a significant cost of \$60m to \$100m  
26 and it would not be a good expenditure for the community.  
27 For the next four years we have allowed \$16.3m expenditure  
28 which has come from our condition assessments.

29  
30 IPART asked us in relation to our continuity to put  
31 our water continuity action plan in place. We are giving  
32 priority under that plan for an extra \$1.4m program of  
33 condition assessments of 300 kilometres of trunk mains. We  
34 actually had the next lot of results coming out in  
35 December. That has meant an additional \$2.5m to the  
36 submission to replace some sections of the critical trunk  
37 mains. So that plan we put in place in agreement with  
38 IPART, we are continuing on that; that will continue over  
39 the price path period and we hope to address the right  
40 balance between cost to the community versus the standard.

41  
42 Turning to DEC licence performance, as I said it  
43 covers both treatment and transport. Again, I think  
44 historic performance is generally very good - no  
45 prosecutions, penalties for non-compliance. David Evans  
46 talked previously about pulling in the bigger fish first.  
47 Having been a previous MD of Hunter Water, I think I have

1 probably heard that story before, and that is relative to  
2 Hunter Water. What we have done in pulling the big fish in  
3 first was look at our treatment system first. I think we  
4 virtually rebuilt all of our treatment plants over the last  
5 decade - that is all of our coastal plants and inland  
6 plants. We are seeing the results of that in our beaches.  
7 I think the independent beach watch results for the last  
8 three years continually say Hunter beaches are amongst the  
9 cleanest in the state, so we are getting the benefit from  
10 that.

11  
12 It is true to also say that the DEC licensing is  
13 moving on from the treatment focus alone to the transport  
14 system. That has been a discussion as part of your IPART  
15 reviews for the last, I would say, five or six years. In  
16 the earlier days, the concepts that we were looking at  
17 related to improving our licence standards in the transport  
18 area, what standards we were setting and agreeing on  
19 meeting in terms of major wet weather overflows to  
20 transport. We went through a critical environmental  
21 assessment process. We have gone through discussions with  
22 stakeholders. We have gone through the critical reports to  
23 work out what is the best way forward. Now we are at the  
24 stage where we will deliver on those. That is probably the  
25 focus for the next four years. We are at a point where  
26 major contracts are going out to deliver on what has flowed  
27 into our licences.

28  
29 Impact on expenditure: Cessnock waste water treatment  
30 plant will be our last major upgrade. That is under way  
31 at the moment. Our priority from the Department of  
32 Environment and Conservation in our licenses - that is sort  
33 of L-A-W, law - is to have pollution reduction requirements  
34 for the Newcastle and Lake Macquarie systems in place by  
35 2007. That requires \$67m worth of capital expenditure. We  
36 are also taking an opportunity in these major upgrades to  
37 our two biggest areas to accommodate some growth. If you  
38 have a major pipe going up the street to accommodate  
39 greater capacity for wet weather flows, it is an ideal  
40 opportunity also to allow for some capacity of growth in  
41 the future rather than building a separate pipeline in a  
42 few years time. That covers the issue of our regulatory  
43 standards and our expenditure and our licensing as  
44 required.

45  
46 Capital expenditure and growth is another item that I  
47 think has been listed as a key issue. It is true to say

1 that the Hunter region is experiencing unprecedented  
2 growth. We often talk about the spillover from Sydney and  
3 the wave rolling north. It is certainly occurring in the  
4 Hunter region. I appreciate that graph is hard to see on  
5 the slide, but this is just the level of development  
6 applications that we have had in 2001. It is ramping up  
7 considerably and this year it is still going up. We find  
8 we are getting major increases in population overall in our  
9 area.

10  
11 As to factoring that into our capital programming, a  
12 number of the speakers - I think Sydney Catchment Authority  
13 and Sydney Water Corporation and ourselves - could talk  
14 about our process of determining what is the appropriate  
15 level of capital to cover growth and regulatory. I think  
16 as part of the processes for each of those areas, and there  
17 are probably 100, we go through detailed consultant reviews  
18 for concept investigation, options analysis, what is the  
19 right combination of capital and operating to meet this  
20 requirement? We go through the stakeholder review,  
21 environmental impact assessment, and then we finalise it in  
22 an upgrade strategy.

23  
24 I have brought one of those documents here today just  
25 for one area. That is volume one of four volumes, which  
26 shows the process we go through. Then part of that process  
27 flows into the organisation with peer review to our board,  
28 from a peer review from a board process to sign off, and  
29 discussions with our stakeholders. It is a very detailed  
30 bottom/top approach to determine what we spend on capital.

31  
32 In currently factoring for growth in all of our  
33 studies, we are using the sort of medium DIPNR forecast for  
34 our area, which is a 74,000 increase in population in the  
35 next 25 years. However, with interest, we have also  
36 noticed major discussions in recent months about what the  
37 population could be in the Hunter flowing on from the  
38 Sydney metropolitan strategy and we have noticed figures as  
39 high as 250,000 in the next 30 years. At the present time,  
40 we are sticking with the 74,000 median increase in  
41 population. We are not gearing up our growth or our  
42 capital program for growth to take into account the higher  
43 expectations of what could occur, but we would need to move  
44 with that.

45  
46 Current and new development areas: this is sort of a  
47 stylised diagram of current development in yellow and where

1 future development is programmed to go. The main point I  
2 would make is that the huge growth area is in the  
3 Maitland-Cessnock area where there is a lot of land  
4 available and we are seeing major growth occur there. It  
5 is a good location in terms of the freeway from Sydney.  
6 Also the western side of Lake Macquarie is a major growth  
7 area.  
8  
9 The key issue there is that those areas are at the  
10 extremities of the system. Ideally we would love  
11 development closer to the main part of our system, but the  
12 reality is that growth is occurring more to the extremities  
13 of our system. There is not just the matter of the cost of  
14 putting growth into those extremities alone to provide it.  
15 It also means we need to supplement the system and augment  
16 the system back to the major dams and also to the treatment  
17 plants. So it has a flow-on effect not just in that area.  
18  
19 Capital expenditure and growth, I have covered a bit.  
20 We have a comprehensive approach to the capital program.  
21 With respect to one of the questions that was asked by the  
22 Tribunal, I think, and by Atkins-Cardno, they have looked  
23 at a broad-brush review on what we have spent in growth in  
24 the last period and they have looked at what we plan to  
25 spend in the next price path period. They have noticed it  
26 is more and they have asked a specific question. From a  
27 corporation's viewpoint what we commit to spend on growth  
28 and regulatory, that flows from a detailed assessment  
29 process with many discussions with stakeholders,  
30 environmental impact assessments and detailed studies and  
31 computer modelling and asset management to give us the  
32 solution, so, it builds up that way.  
33  
34 To go to the heart of the particular question asked -  
35 why is our growth capex expenditure increasing? - there are  
36 a couple of reasons. I think there has been spare capacity  
37 in the system from user pays pricing. We have not spent  
38 anything on our trunk mains system, treatment plant, a  
39 number of our major bulk water distribution facilities for  
40 over a decade. In fact, with asset management and  
41 modelling and scrutinising the program, we have stretched  
42 that as much as we can. We have now reached the limit that  
43 we need to invest for the growth that is occurring because  
44 the rapid growth is picking up that capacity. It is not  
45 just the growth areas. We are also taking advantage where  
46 we can of these major upgrades for the regulatory licence  
47 standards so we can get a once in a lifetime opportunity to

1 accommodate some growth in those schemes as they are going  
2 through the major Lake Macquarie and Newcastle areas.  
3  
4 That is the capital. What are our price proposals  
5 for water? Overall the price adjustment we are asking for  
6 is a CPI plus 3 per cent price increase. This is, I think,  
7 one of the few times that the corporation has asked for a  
8 positive price increase. In fact, I think over the last  
9 decade, we have had something like a 17 per cent real  
10 reduction in prices for the typical customer in the Hunter.  
11  
12 It is often quoted that the cheque the customer writes  
13 at the moment - a typical bill for a customer in the Hunter  
14 - is the same cheque that they wrote virtually a decade  
15 ago. Forgetting inflation, it is the same amount of money.  
16 That has been a partnership of driving efficiency in the  
17 organisation and the scrutiny that comes through the IPART  
18 process and, it must be admitted, setting stretched targets  
19 for the organisation to move forward. That has been a good  
20 process that has looked after customers and also we have  
21 made sure that we continue to strive for better standards.  
22  
23 So Water is CPI plus 3. I appreciate that will depend  
24 on IPART's decision on what they think is an appropriate  
25 rate of return, which is one of the matters that you are  
26 considering.  
27  
28 Water service charge is based on the size of the  
29 connection. One of the unique things for the Hunter, I  
30 think, is that we have a declining block tariff for usage  
31 charges after 1,000KL which is a lot of water, so it is  
32 virtually no homes. Our price submission says that the  
33 days of declining block tariffs are gone and we would like  
34 to fade the declining block tariff out in the Hunter. That  
35 will disappear and our water charge will go from \$1.00 to  
36 \$1.10 over the four years. However, we do have - I think  
37 this is fairly unique - a location based usage charge for  
38 very large volume customers near our sources. I will talk  
39 about that a little more. I think that is one of the  
40 issues that IPART has asked to us comment on.  
41  
42 The location based water usage charge applies to  
43 customers who consume more than 50,000KL per annum. That  
44 is equivalent of 240 houses. A location base means that  
45 that small number of customers - that is 26 customers in  
46 total out of 208,000, and they are major industries that  
47 are close to our water treatment plants - benefit from a

1 location based charge. With a postage stamp of \$1.01,  
2 their charges vary from 80.2 cents to 92.5 cents per  
3 kilolitre. But the discount they get only applies to the  
4 water they use over 50,000KL. If they use 50,001KL, they  
5 get 20 cents discount. The more water they use past that  
6 figure as part of their industry, they get that continuing  
7 discount.

8  
9 How did this come into being? It was a reform process  
10 that was introduced by IPART and the Hunter Water  
11 Corporation in 2000. I think there was an earlier  
12 discussion looking strategically at what would happen with  
13 increased competition in the water industry. As we look  
14 back now we think that was a wise move for us to introduce,  
15 in agreement with IPART, location based prices. It  
16 provides cost reflective prices only to very large  
17 customers and these customers are particularly import  
18 competitive and export industries. They pay a lower price  
19 because they are closer to the source.

20  
21 This addresses the objective of cost reflective prices  
22 for industry in a similar way to access pricing. We see  
23 that now emerging in the water industry, and we are  
24 following that with great interest. We are also very  
25 grateful that that started in Sydney not in the Hunter, and  
26 I thank Mr Evans and others for that.

27  
28 Pricing for demand management is still very strong, so  
29 the water usage bills for these customers vary from \$50,000  
30 to \$3m. I know from the discussions we have had with each  
31 of these customers that they see water as a critical cost  
32 in the business for them to survive and they do everything  
33 they can to minimise it. It is not a discretionary use of  
34 water for their businesses; they see it as part of a  
35 chemical equation to use water to produce a product that  
36 they sell in Australia and overseas

37  
38 On sewer usage, the price adjustment is CPI plus 3 per  
39 cent. The key point to raise there is that Hunter Water  
40 still has a sewer usage component. So what goes through  
41 the water meter, 50 per cent of that goes through a  
42 residential house and they get charged a sewer usage  
43 charge. So if it is \$1.01 leading to \$1.10 for water, we  
44 also have a 42 cents per kilolitre sewer charge, 50 per  
45 cent of that is 21 cents, so we will end up with a real  
46 signal for water to be about \$1.33. I think Sydney set  
47 \$1.40. The key issue is our fixed - our fixed on water is

1 something like \$25 a year so we are virtually all variable  
2 on the water side.

3  
4 We were also asked to comment on stormwater. The  
5 context of stormwater for Hunter Water is that it is a very  
6 small part of our business. It is important to point out  
7 it is a small proportion of our revenue - I think it is  
8 around 2 per cent of our revenue only. We have only a  
9 small number of assets. Historically, I think we were  
10 given some major concrete trapezoidal drains over time in  
11 some local council areas. Those are the assets that we own  
12 and maintain, but it is only in three of the five local  
13 government areas.

14  
15 The issue there for stormwater is that there is still  
16 some property-based valuation charging for stormwater for  
17 the major customers. We started this process in 2000 with  
18 an objective to remove property based valuation. That  
19 disappeared from water and sewerage charges many years  
20 before. In 2000 we looked at whether we could eliminate  
21 property based charges within a short time period, but we  
22 found there would be significant price shocks if the  
23 restructure was completed in that one price path. So we  
24 have had a progressive reduction in proportion of revenue  
25 from valuation charges since 2000. Really what we are  
26 proposing now is just to continue that path. The  
27 residential customers will still only get a small fixed  
28 service charge. For the non-residential customers we have  
29 a mix of fixed service charges only, plus some customers on  
30 valuation based charges. We believe that should be  
31 continued with phasing out property based charges.

32  
33 We are proposing to the Tribunal that we divide this  
34 smaller number of the bigger customers into three  
35 categories. We really sat down and thought you could have  
36 a formula that could be driven on the square metres of  
37 their block, but that is quite complex. For simplicity, we  
38 picked three major categories - small, medium and large.  
39 Our proposal is to continue to phase out valuation based  
40 charges over two price paths. We welcome further debate on  
41 that as to whether the Tribunal thinks we should do this  
42 over one price path and experience the price shocks, but we  
43 would like to allow more time for our customer base,  
44 particularly our non-residential, to move gradually with  
45 the changes relating to stormwater so they can factor that  
46 into their business and their tendering.

1 Even with that we have set a sort of a safety net that  
2 there is a maximum increase per category and it is capped  
3 to minimise customer impacts. For the medium category, we  
4 are proposing that no customer will pay more than a \$50  
5 increase per year and that the large customers will pay no  
6 more than a \$500 increase. That sounds like a lot, but for  
7 that large category, I think it would impact on 16  
8 customers only. They have an area of 10 hectares. They  
9 are very large institutions. They are not small  
10 businesses. They are major, major businesses. What we are  
11 trying to do is to get to a more equitable system for all.  
12  
13 Turning to the last few slides, this is just the  
14 miscellaneous charge. There are two types: urban  
15 development and customer services. Again this is a very  
16 small proportion of our revenue - 3 per cent. It is  
17 calculated based on the IPART methodology - cost recovery,  
18 no profit, labour costs, overheads and materials.  
19  
20 Account payment is an issue that has been raised. One  
21 of the charges is on account payment and disconnection.  
22 Like any business we believe it is important for customers  
23 to pay bills on time and we do have incentives to pay on  
24 time. We have a number of options available for customers  
25 experiencing financial difficulties, such as time  
26 extension, payment instalment plans, budget plans, and we  
27 have payment assistance scheme vouchers via local  
28 charities.  
29  
30 Recovery process: dealing with customers that are  
31 late in paying their bill - this is a very complex diagram,  
32 but the key point I want to raise, and this is as agreed  
33 with IPART in our customer contract, is that there are many  
34 steps in the process between when a bill is sent out and  
35 where we think of restricting a customer's supply. We  
36 generally would consider restricting rather than cutting  
37 off a customer. There are somewhere between 56 and 64 days  
38 after the bill is issued when we could consider a  
39 restriction. At each stage of that process, all of those  
40 points on the right-hand side of the slide are dialogued  
41 with the customer, talking about their particular  
42 circumstances and what is available; whether we could do a  
43 budget plan, a payment plan; what is their capacity? There  
44 are many, many steps that are in place before we could  
45 possibly move to a restriction.  
46  
47 Restriction actions are not taken for pensioners,

1 exempt properties, dialysis patients or joint water  
2 services. Part of the process is that we do not apply it.  
3 There is a cost on that, and that is very light. Generally  
4 I think we have an outside business hours charge which is  
5 something like \$150. That is for about two customers a  
6 year maximum, so I want to put that in perspective.  
7 Virtually any disconnection or restriction and reconnection  
8 is undertaken normally during business hours and it is a  
9 charge of \$52. That is something that we outsource to the  
10 market. The cost recovery there is something that we seek  
11 competitive prices for and it is a real cost to the  
12 corporation.  
13  
14 Picking up the point that was made previously by David  
15 Evans, it is also something we appreciate the Tribunal  
16 needs to make a judgment on. We see we are in the business  
17 of putting cost reflective charges out, but we also realise  
18 that IPART is in an important position to make judgments on  
19 whether that should be paid for by a particular class of  
20 customers or whether that cost should be spread over the  
21 entire customer base. We would welcome further discussions  
22 on that.  
23  
24 THE CHAIRMAN: Thank you very much.  
25  
26 MR REID: I would like to start by just asking three  
27 questions on pricing, if I can. Relative to Sydney, Hunter  
28 Water has a much lower per capita consumption. Do you  
29 think that is due to the great reliance on usage based  
30 pricing in the Hunter or is it due to other local factors?  
31 That is my first question.  
32  
33 The second question relates to the demand/supply  
34 imbalances currently on the Central Coast. Currently we  
35 are in discussions and negotiations between yourselves and  
36 Gosford and Wyong on the prices that may prevail in the  
37 future for that supply from Hunter.  
38  
39 The third question relates to recycled water. IPART  
40 has allowed Hunter Water to negotiate direct with some  
41 large customers for recycled water. How many customers  
42 currently fit within that category and what proportion of  
43 your total recycled water supply would that comprise, and  
44 do you have any comment on Sydney Water's proposal to have  
45 catchment based recycled water prices?  
46  
47 MR YOUNG: They are really good issues. Dealing with the

1 first one, which is the lower capacity consumption, my  
2 personal belief is that the Hunter has always been  
3 fantastic in terms of having the lowest or equal lowest  
4 consumption. I think it goes back to the John Patterson  
5 days in the 1980s when he stood up in the town hall and  
6 pronounced to the Newcastle people that we were all a bunch  
7 of water-hogs and we had to change. There was a lot of  
8 publicity given to that issue at that time.

9  
10 We were also part of a drought, interestingly at that  
11 time, with restrictions, and it hit home to the community  
12 in the area. So we have maintained that lower consumption  
13 and the price signal. I think we were early adopters of  
14 changing - and IPART are were involved in this as well - of  
15 having a low fixed charge and most of the bill being  
16 variable. This is a bit subtle, but what that has meant to  
17 the community over time is that people have seen that price  
18 signal. When we do community surveys, we find that most of  
19 the houses have had better showerheads put in and dual  
20 flush toilets. In fact - I think Andrew Amos would agree  
21 with me - from a survey we did sometime ago, it has been a  
22 long time since you could buy anything other than a dual  
23 flush toilet in the Hunter. It has been the standard. I  
24 think we go back a long time since the initial shock and we  
25 also put in a communication program which is continuing.

26  
27 It must be admitted as well that the Hunter has gone  
28 through a period where, from a socio-economic viewpoint, we  
29 had higher level of unemployment and we were not as wealthy  
30 as Sydney. I think when people see a price signal, it  
31 depends on their capacity to pay. I would have to  
32 recognise that those issues for the Hunter have helped us  
33 as well and helped the community see that price signal.

34  
35 We are currently supplying the Central Coast with  
36 about 6.5ML a day. Our systems actually connect up, and we  
37 see that as something that we can do at the moment to help  
38 a neighbour. I think our storages, as we speak, are around  
39 76 per cent. They have been quite healthy through the  
40 drought and we have never come close to actually entering  
41 restrictions, which would occur at 60 per cent. So we find  
42 ourselves in a position that we can supply the Central  
43 Coast and I think we have factored into our price path for  
44 the full four years continuing to supply the Central Coast  
45 with that amount of water. I think anything further than  
46 that would be subject to future price paths.

1 There is on the table, as I am understand it, the  
2 discussion of a greater link between the Hunter and the  
3 Central Coast. That is something that we are all working  
4 together on to see how that proposal comes out. I must say  
5 that I am not aware of the full details of that at the  
6 present time. The concept studies have been done. We are  
7 trying to do the right thing by seeing whether a link  
8 between the systems would help us in both organisations in  
9 terms of security. Will there be times, looking over 100  
10 years, when the Central Coast would be in the fortunate  
11 position of having water and the Hunter would not? Some of  
12 the debate at the present time is what are the benefits for  
13 both sides of this and how do we quantify that? We are  
14 trying to understand the concept of what would be involved  
15 in a greater link and what the costs of that would be. I  
16 would have to say there is a lot more water to flow under  
17 the bridge on that concept and we will work with them on  
18 that.

19  
20 The third question is interesting. We started off  
21 pretty aggressively at an early stage. I think that having  
22 most of your price of water being variable also means that  
23 you are sending the right price signals out to encourage  
24 recycled water. That has been handy in encouraging  
25 industries, golf courses and power stations to come on  
26 board. We have individually negotiated prices for each of  
27 those places. Eraring power station is a case in point.

28  
29 What we are increasingly seeing is the need to get  
30 more pricing principles into the recycling area and we  
31 welcome IPART's involvement in that. I think this applies  
32 to the industry as a whole. The Water Services  
33 Association, has recently produced a paper which is looking  
34 at the principles of water recycling for the industry and  
35 how it should be applied. My firm belief is that you need  
36 to start off with some catchment information on what the  
37 costs are for a recycling scheme. Particularly as we see  
38 things like third pipe schemes coming in, we would need to  
39 send a signal to developers on what the cost will be to put  
40 water treatment plants at the end of waste water treatment  
41 plants and to put an extra pipe in a street and then have a  
42 real discussion about what are the costs customers will pay  
43 for that recycling? That is will involve a growing  
44 discussion between the utilities and IPART in the future.  
45 I have a personal belief that you need to make sure that  
46 you are valuing the recycling correctly so again it is seen  
47 as a resource and it is not a waste in the system. I think

1 ongoing debate is required on that.

2

3 On the details of how much Eraring and the different  
4 other major industries make up of our recycling, I think  
5 about 8 or 9 per cent dry weather flows are recycled in the  
6 Hunter. I would have to take that on notice and come back  
7 with more detailed information.

8

9 MR SPANGARO: Hunter Water gave us its primary principal  
10 pricing submission in late September/early October last  
11 year. You have just given us a supplementary submission  
12 which outlines round about an additional \$12m worth of  
13 capital expenditure predominantly to cater for growth.  
14 Could you tell us why this additional capital expenditure  
15 is only now being proposed to the Tribunal and perhaps  
16 comment on whether proposing this expenditure now supports  
17 the comment made by Atkins, our cost reviewer, that your  
18 asset strategy does not adequately deliver a robust  
19 four-year investment plan?

20

21 MR YOUNG: I welcome that question. Hunter Water's  
22 success over the last decade has come from putting in place  
23 a robust capital process and asset management process.  
24 What we have determined as an organisation is that, for any  
25 area, no strategy study will be over five years out of  
26 date. That is a commitment we have made to the development  
27 community. When we sat down and said that we wanted  
28 our strategies to be up to date for five years - the  
29 development community pays for the cost of those studies -  
30 we had some options. One option was that we could get them  
31 all done in one year and then we could have four years  
32 hiatus when we did not do anything. In fact, we could also  
33 get them done in one year and we could try and line that up  
34 to be before the determination on the price path.

35

36 I think when we looked at that, there was no guarantee  
37 that IPART in its decision-making would stick to a standard  
38 price path. If you look at the history, there have been  
39 one year, two years - and there have been good reasons for  
40 that - three years, four years. So we can never quite pick  
41 what the price path period is because things have to be  
42 taken into account by IPART to pick an appropriate price  
43 period.

44

45 When we talk about efficient running of capital, what  
46 we decided to do as an organisation was to divide the  
47 studies up and have sort of 20 per cent of the studies

1 being done in any year. We find that is good for resource  
2 planning and to keep people continually looking at this  
3 issue. When we put our price submission in in September,  
4 it was based on the studies that were available at that  
5 time. Some of those studies had not been updated taking  
6 into account actual levels of increased growth that had  
7 been experienced in the last few years because they come  
8 round every five years.

9

10 We have noted that the consultant, Atkins, has  
11 recommended a reduction in our expenditure on growth by  
12 something like \$20m. We are confused by that. Our studies  
13 and our planning are based on a detailed process. We would  
14 like some more analysis of how they come up with the \$20m.  
15 We welcome comments they could make and scrutiny on the  
16 process required through all of the detailed concept  
17 investigation peer review. Are we getting that wrong? Are  
18 our population projections wrong? Are we not basing it on  
19 the best information? Anything that could be available  
20 would lead to us being a more robust organisation, but it  
21 is difficult.

22

23 I think the consultants might have a UK flavour on it.

24 That would be something we would need to discuss with the  
25 Tribunal: do you want us to change a successful game plan  
26 which has delivered lower prices for people in the Hunter  
27 over a longer time by saying that you want all studies to  
28 be completed leading up to a price path submission? We can  
29 adopt that proposal. We do not want to do that because we  
30 don't believe that makes an efficient organisation and we  
31 don't believe that means lower costs to the customers in  
32 the longer term, but if that was a decision that was  
33 required, we would react to it. As always we would welcome  
34 being involved in the debate.

35

36 MR REID: One of the things Atkins obviously set you was  
37 some fairly ambitious efficiency gains over the coming  
38 years. Where do you see yourself sitting, if you like, in  
39 the pecking orders of water agencies in Australia as far as  
40 your level of efficiency is concerned?

41

42 MR YOUNG: A lot of work that was done on efficiency - it  
43 is done through the Water Services Association - in  
44 benchmarking in the past has been done confidentially. In  
45 the future it will be available and I would welcome that.  
46 Hunter's position is that we get great comfort from those  
47 benchmarking studies in knowing where we are at. We think

1 that is backed up by the typical prices we charge our  
2 customers in comparison to others.  
3  
4 Having said that, we have made great efficiencies and  
5 we see ourselves doing very well. I think the figure that  
6 is often used is that 96 per cent of all of our operating  
7 and capital costs and overheads are either contestable or  
8 benchmarked. There is only 6 per cent that does not fall  
9 into that category. I think the three people at this table  
10 probably fit into that 6 per cent, but then I don't think  
11 they contest the managing director's position or the  
12 pricing.  
13  
14 Apart from that, across the organisation, we have a  
15 focus on benchmarking all of the different elements and  
16 that has driven us to try and improve over that time. So  
17 we see ourselves being match fit, but with more to be done.  
18 To be fair, the Atkins' figures for capital we have raised  
19 some issues with. They are very aggressive for the  
20 organisation. They are saying that capital efficiencies up  
21 to 9 per cent should be set in the program and I would  
22 share the views raised by David Evans. If anything, we  
23 like to see stretched targets being set, but we believe the  
24 consultant has not taken into account the reverse side of  
25 what we are seeing of increased prices in commodities and  
26 building.  
27  
28 In particular we have seen in the last year or two  
29 incredible increases in costs for more regulatory coverage  
30 of safety and environment. That is coming into our tender  
31 process at the present time. In our price submission, we  
32 had not factored in any increases in costs through those  
33 major regulatory changes that are occurring and I believe  
34 will roll out over the next four years. If anything, our  
35 belief is that we are under in our estimation of the future  
36 but we are also facing, through the Atkins-Cardno review, a  
37 9 per cent reduction on which we would like further  
38 discussion.

39  
40 THE CHAIRMAN: Thank you very much for your  
41 participation. I would ask the representatives for Gosford  
42 and Wyong councils to come forward.  
43  
44  
45  
46  
47

1 GOSFORD AND WYONG COUNCILS  
2  
3 MR CATHERS: Thank you very much, Mr Chairman. My name  
4 is David Cathers. I am the Director of Engineering at Wyong.  
5 What we are going to do today is a bit of a three-act show.  
6 The first part of the presentation is on the water supply  
7 headworks - the common issues. The next part is basically  
8 to do with Wyong Council and the third part is to do with  
9 Gosford Council.  
10  
11 In terms of this presentation, this is done on behalf of both  
12 Gosford City and Wyong Council. On my left-hand side, I  
13 would like to introduce Rod Williams, the Director of Water  
14 and Sewerage at Gosford; Ken Grantham, the Manager of  
15 Water and Waste at Wyong; and Graham Thomas, the Manager  
16 of Finance at Wyong.  
17  
18 The water supply headworks in terms of the  
19 Central Coast is a very critical issue at the moment, with  
20 the supply areas essentially to Gosford City and Wyong  
21 Shire. We have indicated up there that the projected  
22 population growths are extremely significant.  
23  
24 In regards to the supply areas, in the north is Wyong;  
25 in the south is Gosford, and together the two councils have  
26 a joint agreement. This agreement has been running  
27 effectively now for over 25 years and covers essentially  
28 the development of a headworks of the scheme.  
29  
30 In terms of the scheme, there are a number of  
31 connections both in between the two systems. There is a  
32 system here which is more an inland connection. There is a  
33 coastal connection between the two councils, as well as the  
34 fact that down in Gosford, Gosford have a connection with  
35 the Sydney water supply, which essentially provides a small  
36 amount of water for the Mooney village.  
37  
38 Up in the northern area, up in the Mannering Park  
39 area, we have a connection with the Hunter, and Kevin Young  
40 has spent a bit of time talking about that particular  
41 connection, but that is very crucial in terms of our  
42 infrastructure.  
43  
44 A characteristic of the scheme is that it is  
45 essentially a stream-based scheme. It relies on drawing  
46 water from a number of streams and rivers around the area,  
47 particularly Wyong River, Ourimbah Creek, Mooney Creek and



1 Mangrove Creek, essentially, taking those almost run of  
2 river flows and putting those run of river flows into  
3 storage. It is very critical as far as the scheme is  
4 concerned in terms of how it operates that we receive  
5 reliable rainfall.  
6  
7 A number of the Tribunal secretariat have seen this  
8 graph before, but we have actually updated it since a  
9 submission or a presentation that we gave the secretariat  
10 last year. What this graph attempts to show is the  
11 Central Coast stream flows from 1896 up until today. In  
12 terms of the way the headworks are operated, it is very,  
13 very crucial in terms of understanding why we are at where  
14 we are at.  
15  
16 I guess the major thrust of certainly this part one  
17 presentation is to deal with the issues in regards to the  
18 drought. When you actually look at the Central Coast  
19 stream flows over that period of time, and that is  
20 represented annually by the blue, in order to make a bit of  
21 sense of that, we have taken a 10-year rolling average,  
22 which arrives at the red line. So from 1896 or  
23 thereabouts, we have some characteristic stream flow data.  
24  
25 If you look at the long-term average of that stream  
26 flow, you end up with that horizontal blue line running  
27 through there. You can do all sorts of analyses of this  
28 stream flow data, but here are some of the crucial points  
29 that are worth looking at - and that is for about, say, the  
30 first 50 years or so. The long-term average or the average  
31 of the 10-year moving average, if you like, was slightly  
32 below the long-term average delineated by that blue line.  
33  
34 From about the 1950s onwards, the average of the  
35 10-year moving average is actually delineated by that green  
36 line there, and it shows that it is above the long-term  
37 average. Fairly simple stuff. But the crucial thing is  
38 from about 1990 onwards, which is about that point on the  
39 graph there, you will see that not only have the stream  
40 flows dropped significantly down to this level here, and  
41 that obviously affects the 10-year moving average, but it  
42 has been a sustained reduction. It hasn't just been one or  
43 two years. It has been an ongoing sustained reduction.  
44  
45 When you do the arithmetic on that last 10 years,  
46 since about 1990, the average of the stream flows, you end  
47 up with that black line there, so from about 1990 through

1 to about there, we are ending up with a significant  
2 reduction compared to the long-term average.  
3  
4 One of the interesting things also about that graph,  
5 plotted on there, is in fact our demands, which is  
6 indicated by that little yellow section at the end. So  
7 proportionally, since 1990, the demands on the system have  
8 been much greater. We have had far less water from which  
9 we are able to extract. So when people talk about the  
10 drought on the Central Coast, you have to understand why we  
11 are in the situation we are in.  
12  
13 We are in the situation we are in because we are  
14 extremely reliant on stream flows. We don't have storages  
15 which are basically on-river storages, and, consequently,  
16 because of the behaviour in the weather pattern since that  
17 period of time, we have had a significant reduction.  
18  
19 That is all very well and good, but what has that  
20 meant? This is a plot of some data, and some of it is  
21 available on our website, but it is an indication from 1982  
22 up until now of the water storages in the major dam, which  
23 is Mangrove Creek. You can see that from 1982 up until  
24 about 1990, we in fact received around about average  
25 rainfall conditions or slightly more, but around about  
26 average rainfall conditions. Mangrove Creek Dam was  
27 filling. In fact, it just peaked over 72 per cent in terms  
28 of its total storage.  
29  
30 Since that time, going back to that previous graph,  
31 the stream flows have significantly reduced, and that is  
32 primarily obviously because the rainfall has been less than  
33 average, and that is plotted along the horizontal line at  
34 the base there, where when you compare the yellow line,  
35 which is the average annual rainfall to the new line, there  
36 are real only one or two years when that rainfall either  
37 reaches the average rainfall or in fact is exceeded.  
38  
39 So for the majority of the time since 1990, we have  
40 been in far less than average rainfall conditions. So,  
41 consequently, stream flows are not there and we are having  
42 to draw down on storages, such that the current storage  
43 level is just a touch under 25 per cent in terms of our  
44 total storage.  
45  
46 Also plotted on here, just by way of information, it  
47 is worth comparing the way our system operates on the

1 Central Coast with that of Sydney Catchment Authority and  
2 the Hunter. The red line up there is the behaviour of the  
3 Sydney catchment over that period of time, and there has  
4 been a slightly corresponding reduction in the storage of  
5 the Sydney catchment. But it is also worth noting that in  
6 about that period then, which was about 1998, there was  
7 some reasonably significant rainfall events, and Warragamba  
8 in particular received an enormous amount of in-fill into  
9 its storage, but obviously since that time, rainfall has  
10 been not under average conditions and the storage in fact  
11 has depleted.

12  
13 The Hunter system is a bit different again. The  
14 Hunter system is essentially relatively small storages on  
15 very, very large catchments, and so the Hunter system is  
16 what I would call a more volatile system, in that it is  
17 more reactive to rainfall events than ours.

18  
19 Regarding the key water issues, as far as we are  
20 concerned on the Central Coast, essentially we have divided  
21 them into three sections: short-term issues, medium-term  
22 issues and long-term issues. In terms of the short-term  
23 issues, we are attempting to manage a drought situation  
24 that is very, very severe. In terms of the medium-term  
25 issues, we are talking about those in terms of recovery  
26 from the drought. We are also talking about those in terms  
27 of being complementary to our long-term scheme development.  
28 Obviously we have the long-term scheme development. Where  
29 are we heading in the next 40 to 50 years?

30  
31 In regards to the drought management short-term  
32 strategy, the strategy is focused around demand reduction,  
33 contingency supplies. Some of the key issues are providing  
34 adequate supplies on time, cost and ensuring those  
35 contingency supplies are compatible with long-term  
36 strategy. Overriding all of that are the issues relating  
37 to environmental factors, which are very varied and rather  
38 complex.

39  
40 Demand reduction on the coast has been achieved by a  
41 suite of programs, obviously consisting of restrictions,  
42 and I'll be talking a bit about that in a minute and their  
43 effect on the actual consumptions. There are other things  
44 such as the refit program, which we are doing in  
45 conjunction with Energy Australia, subsidised rainwater  
46 tanks for houses and schools, leakage reduction.  
47

1 Both councils have focused very, very clearly on major  
2 programs of ensuring our leakage is reduced to minimums.  
3 That was raised in the Atkins report on both councils, and  
4 in fact it was commented on that the leakage that both  
5 councils are in fact achieving is in fact very, very low.  
6 We also have a number of effluent reuse programs.  
7

8 There are two major schemes that have just been  
9 commissioned, and we are expecting, for instance, in those  
10 schemes to potentially reduce the demand off the  
11 Central Coast system by about 2.5 per cent by the end of  
12 this year.  
13

14 Non-potable groundwater is another demand reduction  
15 activity that we have been undertaking, as well as  
16 groundwater production, and I'll go into that in a minute.  
17 There's also education and publicity and new development  
18 requirements.  
19

20 In regards to the restrictions and the current  
21 demands, the average demand between the two councils,  
22 Gosford and Wyong, prior to the restrictions coming online,  
23 was about 206 KL/a at the moment. Between 2003/04, during  
24 restrictions, we're down to about 190KL. The latest data  
25 that we have taken has indicated that we are probably  
26 somewhere closer in fact to about 185KL. The unrestricted  
27 drought demand is 34,600 ML/a and the current average  
28 demand is about 29,000.  
29

30 It is worth having a look at the actual demands that  
31 we have been experiencing since level 1 restrictions were  
32 put into place, and they were brought in on 24 February  
33 2002. So the Central Coast has been experiencing  
34 restrictions for quite some time, and that is, as I say,  
35 going back to that stream flow issue, primarily related to  
36 the lack of flows within the rivers because of less than  
37 average rainfall. But the performance of the systems has  
38 been reasonably good in terms of responding to the  
39 restrictions.  
40

41 Level 1 restrictions were brought in on that date, and  
42 the top line here represents what we believe would have  
43 been normal demand patterns. The next line down, the blue  
44 line, represents a line which corresponds to an eight per  
45 cent reduction in demand; that is, level 1 restrictions.  
46 The green line represents a 16 per cent reduction, which is  
47 a level 2 restriction, and the mauve line is a level 3

1 restriction line of reduction of 24 per cent in terms of  
2 total demand.  
3  
4 The actual performance of the systems - and this is  
5 Gosford and Wyong combined - is plotted there in the red,  
6 and you can see that generally, while level 1 restrictions  
7 were running, we were generally achieving the blue line,  
8 which was very important. In fact, when you annualise the  
9 figure, we were actually achieving better than the eight  
10 per cent reduction.  
11  
12 A problem started to occur in autumn/winter last year,  
13 when the consumptions started to track outside that eight  
14 per cent reduction target figure that we were trying to  
15 achieve. That was primarily related to the extremely dry  
16 autumn and winter rainfall that we had. There was a period  
17 of around about three months, for instance, up at Mangrove  
18 Creek Dam, the major storage, where we received only 1mm or  
19 2mm in the entire three months. Because consumption, even  
20 under restrictions, is in fact related to weather, we found  
21 ourselves in the situation where the demands were actually  
22 going outside our target figures. So the two councils met  
23 and we introduced level 2 restrictions.  
24  
25 We travelled with that for some weeks, but again we  
26 had some difficulty in achieving the reduction that we were  
27 trying to aim for, so level 2A restrictions were in fact  
28 brought into place, and so far we have been tracking very  
29 well in terms of our target figures. This performance is  
30 very, very crucial in relation to our consumption  
31 forecasts.  
32  
33 In terms of the submission to IPART in September last  
34 year, both councils presented three consumption forecasts  
35 and we have been adopting the medium restriction regime.  
36 Based on the feedback that we received from the IPART  
37 consultant, which found that medium case forecast to be  
38 reasonable, that is a prediction regime that we are working  
39 to.  
40  
41 With regard to the contingency supplies - and there  
42 has been a lot of discussion and a lot of publicity about  
43 particularly the third item here - we have identified  
44 essentially three major packages of contingency supplies,  
45 because not only do we have to restrict demand by  
46 restrictions by all of those demand management processes  
47 that I was talking about but we indeed have to supplement

1 the supplies actually into the system. We have identified  
2 a number of sources, one being groundwater, and we have  
3 some estimates on how much production we think we can get  
4 from groundwater.  
5  
6 The next one is a further connection to the Hunter  
7 Water Corporation, because at the moment we are currently  
8 getting around about the 6ML/a. We are exploring a  
9 potential 18ML/a, and it is anticipated that the councils  
10 will in fact be making a decision about that in around  
11 about May this year.  
12  
13 The third option is in fact desalination. It is  
14 important in terms of the contingency supplies that you,  
15 I guess, comply with certain criteria with regard to  
16 implementation. So the whole selection process is geared  
17 around the time that we can actually commission these  
18 contingency works, our ability to progressively stage those  
19 works, the compatibility with the long-term strategy, the  
20 capacity to actually reliably supply water from those  
21 contingency options, and obviously the cost.  
22  
23 This graph here essentially tries to represent our  
24 best predictions at this stage in terms of achieving an  
25 extra source of water of around about 30ML/d into the  
26 system that we need in order to stop the storages further  
27 declining.  
28  
29 The first suite of options is based on groundwater  
30 being implemented, and there are a number of schemes here  
31 on the right-hand side. We have presented this information  
32 to the secretariat, who is part of our submission process.  
33  
34 So the first suite of groundwater options gets us  
35 potentially to around about 25ML/d, which is a bit short of  
36 the 30ML/d that we believe we need in order to stop the  
37 storages from further declining. In order to meet that  
38 gap, that gap potentially could be met by the Hunter  
39 connection through the purchase of an additional 12ML/d.  
40 Behind all of this is the continuance of the current 6ML/d.  
41  
42 If in fact our predictions are wrong and we experience  
43 worse rainfall behaviour than we have experienced over the  
44 last couple of years, and we need further input into the  
45 system rather than the 30ML/d, and we might need, say, 30  
46 to 40 - in other words, it pushes up the inputs that we  
47 require - then potentially that can bring on the need for

1 the desalination plant.  
2  
3 It is important to bear in mind that any of those  
4 options have fairly long lead times in terms of  
5 construction programs and investigation and approval  
6 programs. The need to make the decision to achieve that  
7 supply from the Hunter in August/September 2006 will need  
8 to be taken around about May this year. The need to have  
9 that system online in terms of desalination, in terms of  
10 bringing it online in September 2007, would need to be made  
11 around about September this year because of the lead times.  
12

13 What is very crucial with regard to that - and, in  
14 fact, what we have overlaid there is the IPART  
15 determinations, and I'll address that a bit further later  
16 on - is both councils are of the view that the two-year  
17 price path is simply not something that we can work with  
18 because of the high degrees of uncertainty in terms of our  
19 contingency planning process and in terms of this current  
20 drought. It is something which will be very difficult for  
21 us to accommodate. As you can see, that's the IPART  
22 determination there in June 2005 and that's the next one.  
23 Obviously any determination has a huge impact on our price  
24 path.  
25

26 These are some of the future predictions that we have  
27 made in terms of our storages. This is one of probably  
28 tens of predictions that we have made with regard to the  
29 behaviour of the system, but it is worth just looking at  
30 the current level of storage. The storage has been  
31 declining via that line there from August 2003, when it was  
32 around about 37.5 per cent, to this level here of just a  
33 touch under 25 per cent.  
34

35 These sinusoidal lines which we have drawn up to the  
36 right-hand side are a prediction we have tried to make  
37 about what would happen if we were to replicate essentially  
38 the climatic conditions and the demand conditions that we  
39 have been experiencing over the last three years.  
40

41 Essentially they rely on a summer reduction, with an  
42 autumn recovery, and based on that sort of a prediction, in  
43 order to stop that decline that we are talking about there,  
44 if we were to do nothing, we have to bring online these  
45 contingency plans, which essentially stops the storages  
46 from declining but helps us to track in a horizontal  
47 position.

1  
2 If things really got bad and we had replicates of last  
3 year's autumn and winter no-rainfall situation, instead of  
4 having a blip, if you like, we would continue to track  
5 down, and that's a situation that we find unacceptable.  
6  
7 With regard to our expenditure profiles, we have done  
8 some predictions on what our contingency costs will be in  
9 terms of capital costs. The red line there indicates the  
10 amount of funding that both councils have provided for in  
11 the IPART submission. Again, just to re-emphasise, the  
12 whole issue about a two-year price path is very important  
13 because if we need to go into a desalination option, it is  
14 essentially unfunded at this point in time.  
15

16 A couple of other issues very quickly. In terms of  
17 the medium term, the drought recovery, there are a number  
18 of other capital works that we have in plan and we have  
19 commenced work on, and their various commissioning dates  
20 are indicated there. Essentially, these surface water  
21 schemes help us improve the yield a bit, by about eight per  
22 cent, but obviously they are very reliant on rainfall  
23 actually occurring to in fact make them very beneficial.  
24 Our preliminary cost estimate of that was approximately  
25 \$22 million, which was included in both councils'  
26 submissions. Over the last three to four months we have  
27 done further work on those, now that the concepts are being  
28 developed, and in fact in our latest response to Atkins we  
29 will be providing for refinement of that \$22 million.  
30

31 Regarding the long-term scheme development, it is  
32 essentially what we have called the 2050 plan. It has a  
33 suite of options. This is essentially taking us beyond the  
34 medium-term phase and taking us up to literally the year  
35 2050. We have a suite of options in terms of what we  
36 believe we can do with regard to inputs into the system.  
37

38 In regards to the longer term, this is very relevant  
39 because this shows the impact that potential environmental  
40 issues could have on us. What this is showing on the  
41 left-hand side is our annual demand. The blue there is  
42 actually an indication of what we have been experiencing,  
43 and along the horizontal axis out to the year 2050 is the  
44 date. These a number of demand scenarios we have done.  
45 I don't intend going into details on those scenarios, but  
46 simply to take into account some global warming issues as  
47 well.

1  
2 A crucial thing is environmental plans. Currently  
3 there are two environmental plans that have actually been  
4 gazetted that affect us, but if in fact we were limited to  
5 what is called a 30 per cent environmental flow, we are in  
6 fact around about equal to the current level of demand in  
7 terms of our system capacity.  
8  
9 The other line-up here represents a 60/40 water  
10 sharing plan. As you can see, it obviously potentially  
11 gives us more room to move in terms of scheme development,  
12 but it also means that we have to do some other things  
13 other than just the particular implementation scenarios  
14 that we have predicted. Flexibility requirements are very,  
15 very crucial in that regard, particularly with regard to,  
16 as I say, these environmental flows.  
17  
18 In summary, we have short-term needs, medium-term  
19 needs and long-term strategy. The crucial issue for both  
20 councils at that point in time is the short-term strategy  
21 and how it is impacting us in regard to our contingency  
22 plan and, indeed, how we deal with the price path that the  
23 Tribunal determines.  
24  
25 WYONG COUNCIL PRESENTATION  
26  
27 MR CATHERS: Mr Chairman, we have a presentation  
28 particularly relating to Wyong Council now and then there  
29 will be a particular presentation with regard to Gosford.  
30 So I would like to introduce Kerry Yates, the General  
31 Manager of Wyong Council, who will be here to help us if  
32 there are any issues that you want to raise.  
33  
34 Regarding the issues for the current review with  
35 regard to us as a council, bear in mind that we are also a  
36 general purpose council as well as a water authority. The  
37 drought impacts on the opex and the capex, all that stuff I  
38 have been talking about previously - price structure,  
39 developer charges, stormwater charges - and we want to  
40 raise this issue about the determination.  
41  
42 In terms of the drought impacts on the opex and capex,  
43 based on our submission, we believe that there will be an  
44 increase in expenditure of around about \$3 million per  
45 annum for Wyong Shire over that period. There will also be  
46 an increase in the capital expenditure of approximately  
47 \$28 million on contingency works over that period. Again,

1 I referred to that previously. That's the revised figure  
2 that we will be advising the secretariat in the next day or  
3 so in terms of that revision on those medium-term works.  
4  
5 The impact on our price structure in terms of the  
6 proposal that we have to the Tribunal is as seen up here.  
7 In terms of water usage charges, it is CPI plus 18 per  
8 cent; water service charges is straight CPI; sewerage use  
9 charges are CPI plus one per cent; sewerage service charges  
10 are CPI plus one per cent; trade waste charges are CPI plus  
11 one per cent; with the miscellaneous charges just running  
12 at CPI. That is a Treasury forecast of 2.5 per cent.  
13  
14 Mr Chairman, I'll just refer to Graham Thomas, our  
15 Manager of Finance at Wyong, to go through this table here.  
16  
17 MR THOMAS: This table details the impacts of the proposed  
18 price increases on residential customers across the various  
19 consumption bands. The far right-hand table indicates a  
20 cumulative increase in the various consumption bands.  
21  
22 Quite clearly, the table indicates the higher  
23 consumption customers will incur the larger percentage  
24 increase in their total water and sewerage bill. Council  
25 believes that is setting the right price of usage for water  
26 users. What the table does not reflect is the actual  
27 movement in residential bills, as it doesn't recognise the  
28 reductions in consumption from year to year resulting from  
29 the impact of water restrictions. A more valid comparison  
30 would be the movements in the residential water and  
31 sewerage bill as illustrated in the next slide.  
32  
33 This table shows year-on-year increases in the total  
34 water and sewerage bill since 2001/02 as well as the  
35 cumulative percentage increase since that time as well. It  
36 recognises the impact of the reduced consumption from year  
37 to year.  
38  
39 You can see from the table that the typical  
40 residential water and sewerage bill has reduced 4.9 per  
41 cent at the end of 2003/04 and it is expected that the  
42 average 2004/05 total water and sewerage will be 8.9 per  
43 cent less than it was in 2001/02. Our forecasts indicate,  
44 based on our expected usage over the next two years, that  
45 that typical bill will increase over the next two years,  
46 but at the same time the total typical water and sewerage  
47 bill for 2006/07 will be still less in real terms than it

1 was in 2001/02.  
2  
3 I guess I should also point out that since 1993 until  
4 the end of 2004/05, we have seen a real reduction in  
5 typical total water and sewerage bill for a residential  
6 customer of around 33 per cent. In today's dollars, the  
7 1993 typical bill was around \$798 per residential customer.  
8 For 2004/05 it will be \$559. That represents a saving in  
9 real terms over that 12 years of \$279.  
10  
11 MR CATHERS: It probably would be a rarity for  
12 Wyong Council to allow a public hearing to go by without us  
13 raising this issue. It is an issue that we have been  
14 raising since 1996 and that we believe is unjustifiable.  
15 We have continually raised this with the Tribunal, in that  
16 since 1996 we have been pegged in Wyong Shire in terms of  
17 our prices that we're able to charge developers. We have  
18 been pegged to 85 per cent of actual cost. From our point  
19 of view, that represents a 15 per cent subsidy, a 15 per  
20 cent direct cross-subsidy, from the rate-paying base back  
21 to the development base, and in terms of what that might  
22 represent each year, we have done some predictions. It's  
23 about \$674,000 a year.  
24  
25 It is an issue that we again seek the Tribunal's  
26 relaxation on. It was something that was issued to Wyong  
27 only. It hasn't been issued to Gosford, nor Sydney, nor  
28 Hunter. As I say, it represents a direct cross-subsidy and  
29 does not in fact represent what we would call price  
30 reflectivity. So from that point of view, Mr Chairman,  
31 again, I raise that matter for the Tribunal's decision.  
32  
33 In terms of stormwater charges, we were asked to deal  
34 with stormwater charges because we deal with stormwater as  
35 a water authority but also as a general purpose council.  
36 We are not proposing any separate pricing for this review.  
37 Given the timing issues and particularly given the impost  
38 that the drought has had on the resources that we have  
39 available, we would certainly be intending to deal with  
40 that issue in terms of stormwater charges for the next  
41 review period.  
42  
43 In addition, what we would be proposing for that next  
44 review period is dealing with recycled water charges,  
45 particularly with Wyong, that will have a fairly  
46 significant effect on us. I mentioned earlier that there  
47 are a couple of schemes that are commissioned and it is

1 certainly something that Wyong is pursuing quite  
2 forcefully.  
3  
4 We have negotiated some pricing arrangements already  
5 but we need to get some solidarity in terms of those  
6 pricing issues. In addition to that, the alternative  
7 pricing structures would also be addressed in terms of any  
8 next review.  
9  
10 Lastly, I have raised it a number of times, but in  
11 summary, the two-year price path issue - I think maybe the  
12 General Manager would like to make some comments in  
13 regards to that.  
14  
15 MR YATES: Thank you, Mr Chairman. I want to emphasise  
16 two points. Firstly, as Mr Cathers has put up there, we  
17 strongly recommend that the Tribunal consider a two-year  
18 price path in lieu of the four-year price path. We  
19 understand the implications of that from a resource point  
20 of view for both the Tribunal and ourselves. However, as  
21 Mr Cathers has outlined, we are in a great period of  
22 uncertainty in respect of our supply.  
23  
24 While we have a number of contingency alternatives  
25 being actively explored and indeed implemented, not the  
26 least of which is the larger connection with the Hunter, we  
27 have no certainty of supply from any of those  
28 contingencies. Certainly, we have been successful in  
29 locating underground water sources. We are not sure of the  
30 sustainability of those sources at this point in time, and  
31 that will require further additional investigation,  
32 testing, et cetera.  
33  
34 While we are strongly looking at the increased Hunter  
35 connection, that of course is reliant upon the Hunter  
36 having water to give us at the end of the day. That is of  
37 concern.  
38  
39 Certainly, the desalination option we see as an  
40 absolute last resort from both a pricing point of view and  
41 an environmental impact point of view. But, at the end of  
42 the day, there may not be any alternative if the drought  
43 worsens and we are concerned that we might have a price  
44 path that would commit us over the next four years. We  
45 believe two years gives the opportunity to reassess that  
46 situation. It also provides the opportunity for us to look  
47 at some of the other issues that the Tribunal has raised in

1 respect to the stormwater charging, the recycled water  
2 charging and greater movement towards a user-pays charging  
3 regime, which we would support, but we're not in the  
4 position just at this point in time to place matters before  
5 the Tribunal or indeed to do the extensive modelling needed  
6 to support that. There is even the question of integrated  
7 charging. We would like to pursue all of those, but we're  
8 not able to at this point in time. We believe that with a  
9 two-year price path that would give us that opportunity to  
10 do that.

11  
12 The second point I would like to raise with the  
13 Tribunal is the timing of the determination. I certainly  
14 understand the amount of work that is required in the  
15 Tribunal reaching a determination, but certainly a  
16 determination that is not made in time for us to do our  
17 usual billing will cause some difficulties from a number of  
18 point of views. One is a cashflow point of view, but  
19 that's probably to some extent the lesser of the evils.  
20

21 The other concern for us is that we have a brand new  
22 computer system. I have been speaking to our IT manager  
23 over the last couple of days and he is not able to assure  
24 me that we could accommodate that within our computer  
25 system. We are still in the situation of rolling out that  
26 system entirely. It won't be rolled out completely until  
27 June, so that would cause us certainly some concern.  
28

29 The other aspect is the confusion that I believe it  
30 would create in the community. All our pricing increases  
31 are done at the same time from both a local government  
32 point of view and a water authority point of view, and the  
33 community expects that and understands that. If they plan  
34 their year accordingly, and we have to recognise that we do  
35 have lower socioeconomics in our area, we believe that  
36 could cause confusion and, indeed, may cause some financial  
37 hardship if there is a significant increase partway through  
38 the year. We can obviously attempt to communicate that to  
39 the community, but communication only goes so far, and we  
40 have a saying that people really don't pick up on those  
41 things until the bulldozer arrives on the site.  
42

43 Mr Chairman, thank you for your time.  
44

45 MR CATHERS: That basically is the completion of our  
46 presentation, and I guess the intention was that Gosford  
47 would do theirs.

1 GOSFORD COUNCIL PRESENTATION  
2

3 MR WILLIAMS: Mr Chairman, thank you very much for this  
4 opportunity. I am Rod Williams, Director of Water and  
5 Sewerage with the Gosford City Council, and on my  
6 right-hand side I have Nick Pasternasky, the acting General  
7 Manager of Gosford City Council, and Steve Diffey, who is  
8 the Manager, Regulatory Services.  
9

10 Again, very similar issues to Wyong, so I won't recap  
11 on what those issues are, but obviously the drought has a  
12 huge impact on our opex and capex. These are the issues  
13 that we have been asked to look at by IPART. One is the  
14 price structure and our price proposal, corporate cost and  
15 the stormwater arrangements within Gosford.  
16

17 What we are basically seeing in our opex is an  
18 increased expenditure of some \$3 million on average over  
19 the period of 2004 up to 2008. Capex has increased  
20 expenditure of approximately \$28 million for the  
21 contingency works, and we can see how they have been broken  
22 down from the Wyong presentation, but basically it is the  
23 rollout of groundwater, Hunter water connection, effluent  
24 reuse and possibly desalination, but obviously that  
25 \$28 million does not cover all those items. It would only  
26 cover part of them.  
27

28 The price proposal that we are seeking is similar to  
29 Wyong's. It is CPI plus 18 per cent, and that's on the  
30 water usage charge, not for the total charge, as was  
31 incorrectly reported in the paper, I might say. Water  
32 service charges, only CPI. Sewerage service charges, CPI  
33 plus 5 per cent. Non-residential sewerage charges, CPI  
34 plus 5 per cent and then CPI after that, and similarly with  
35 the non-residential sewerage usage.  
36

37 The charges themselves, looking at actual dollars,  
38 would move from 75.5 cents. As you would appreciate, this  
39 is probably one of the lowest charges of any agency within  
40 Australia for water consumption. The water service charge  
41 is some 72 cents, and that would be absolutely the lowest.  
42 It is significantly less than Wyong. The residential  
43 sewerage charge is 352, which is current, going up to 380,  
44 and that represents that five per cent plus CPI, and  
45 similarly for non-res, and non-res usage charge for  
46 sewerage, all those are CPI plus five per cent, and then  
47 after that, for the next three years, CPI.

1  
2 Regarding the impact on the customers themselves, at  
3 the present time most of our customers are sitting within  
4 the 150KL to 200KL per year water usage, and I can assure  
5 you that is perhaps one of the lowest in Australia. If we  
6 got the 18 per cent, you can see there the blue is the  
7 average 2003/04 account, which is the pale blue, and you  
8 can see that the average account would be very similar for  
9 2005/06 with the 18 per cent increase. That is partly due  
10 to the lower consumption, as I pointed out in the previous  
11 slides by Wyong. We are achieving something in excess of  
12 16 per cent reduction in consumption.  
13  
14 Gosford has in fact had the biggest reduction in  
15 prices over the last 14 years, and these are figures  
16 published by IPART. Gosford is the green up the top there.  
17 You can see that we have gone from something like \$960 per  
18 year for the average consumer, and we're now the lowest ,  
19 just under \$580 per year for the consumer, so you can see  
20 that there has been almost a 45 per cent reduction in the  
21 real rate of water and sewer rates within the Gosford City  
22 Council area. You can see that is a lot better than any of  
23 the other agencies have in fact achieved.  
24  
25 Steve, do you want to comment on the liquid trade  
26 waste policy briefly?  
27  
28 MR DIFFEY: Thanks, Rod. Basically we have been working  
29 very closely with DEUS. We did cut out a lot of slides  
30 that other agencies have used today, things like our  
31 regulatory background, maps of our region, et cetera, and  
32 population. That was covered in the earlier presentation  
33 by David.  
34  
35 We have been working very closely with DEUS, who is  
36 another one of our key regulators, and they have been very  
37 keen for us to fall into line with their liquid trade waste  
38 policy, not least because they require us to meet best  
39 practice management guidelines for water and sewer. That's  
40 pretty critical to us because it affects two things: if we  
41 don't comply with those guidelines, we may become  
42 ineligible for grants, which is pretty critical to our  
43 area, particularly for projects such as the Hawkesbury  
44 Villages project in Mooney Mooney, and to a lesser  
45 importance to IPART, but very important to our general fund  
46 and council, it also could affect our ability to pay a  
47 dividend. But we won't harp on that one too much.

1  
2 The issue with our trade waste policy falling into  
3 line with the DEUS best practice model licence meant that  
4 we have in fact restructured all of our liquid trade waste  
5 pricing basically. What we did was we actually wrote to  
6 all of our 1,250 liquid trade waste customers. We also  
7 spoke to all of our large customers verbally. We rang them  
8 to actually discuss the impacts that this new price regime  
9 would have on them. We also measured the costs on our  
10 large customers particularly before and after this price  
11 regime that we are proposing.  
12  
13 Basically the outcome was there was a very  
14 insignificant impact on all of our customers, particularly  
15 our large customers. We do have over 1,000 small shops,  
16 for instance, like fish shops and things like that, which  
17 again would only be a fairly nominal impact of our new  
18 pricing regime.  
19  
20 We are addressing this in detail in a written response  
21 to IPART. We have been sent 15 additional questions, which  
22 I thank the secretariat for at this time of year. That  
23 response will come in the next few days.  
24  
25 Regarding our miscellaneous charges, we have also been  
26 asked to do a bit of extra work on that. We have another  
27 IPART consultant harassing us, let's say, and creating a  
28 lot of extra work. Basically with our miscellaneous  
29 charges, every one of our miscellaneous charges had a  
30 fairly significant labour component. We are looking to  
31 recover the cost that is involved in the time that we spend  
32 doing the work that is associated with these miscellaneous  
33 charges.  
34  
35 The only thing we did in this current submission was  
36 to increase the labour component by the award rises that  
37 council has had to bear over the last few years. We did  
38 not increase any material costs or anything like that, so  
39 we have tried to keep the charges in check as much as we  
40 could.  
41  
42 MR WILLIAMS: The other key issues for IPART were the  
43 corporate costs and the stormwater arrangements. At the  
44 present time, 50 per cent of the council overheads are met  
45 by the water and sewer functions , and that equates to some  
46 \$10 million per annum. There was a report done in the  
47 previous IPART determination by Halcrow which indicated



1 that the quantum of money was about the right order of  
2 magnitude.

3  
4 Since then we are undertaking a more detailed analysis  
5 of the actual corporate cost that is required to service  
6 the water and sewer function, and we are trying to get to a  
7 more transparent arrangement in terms of getting those  
8 costs broken down with the various overhead services that  
9 are provided - finance, HR, occupational health and safety,  
10 those areas.

11  
12 The other area was the stormwater issue that was  
13 raised. At the present time there is some \$3 million that  
14 is raised from the water and sewer fund to pay for  
15 stormwater. In addition, there is about \$2.5 million that  
16 is raised from the stormwater levy. IPART hasn't increased  
17 that over the last couple of determinations. We would like  
18 that to be increased.

19  
20 Together, those two quantum of money make up to about  
21 \$5.5 million, and that doesn't meet the capital operating  
22 expenses that are currently incurred within Gosford. We  
23 are looking to revamp the way that we do the stormwater so  
24 that we bring it into line with the water and sewer  
25 accounting practices, and we have actually let a contract  
26 in the last couple of months that is basically looking at  
27 making that more transparent so that IPART can in fact see  
28 stormwater as a legitimate cost to the water and sewer  
29 business, as occurs in the other water authorities.

30  
31 Regarding some of the drivers of the operating costs,  
32 there is a list here of some of the initiatives we have  
33 undertaken over the last few years. We are putting new  
34 SCADA on all our sewerage pump stations. We have a  
35 septicity control contract that is costing about \$1 million  
36 a year extra over what it was previously. As previously  
37 mentioned by Wyong, we have a very aggressive leakage  
38 detection and repair program. We have picked up something  
39 like 2.5 per cent of our water that has been leaking out of  
40 the system in previous years and we have basically been  
41 able to pull that back. So there are a number of  
42 initiatives going on here to improve what is essentially  
43 ageing infrastructure.

44  
45 The additional works to be funded is the joint water  
46 supply works that were enumerated by Wyong and then also  
47 our internal programs, which is planning for the

1 contingency works, which is looking at about another  
2 \$2.2 million, a refit program of 150,000, non-residential  
3 water audits, rainwater tanks, and you can see a lot of  
4 these are to bring the demand down within Gosford, and also  
5 we are buying water through Hunter through our joint  
6 arrangement with the Joint Water Authority but also through  
7 Sydney Water, where we are getting 330KL per day, which is  
8 about \$330,000 we are paying to Sydney Water because we do  
9 pay at a premium rate for purchasing that water.

10  
11 The water fund, as a result of all these increases in  
12 costs, is not operating at a profit. I'll just skip over  
13 this slide, seeing we are running out of time. But if we  
14 look at our profit and loss statement, in very simple terms  
15 you can see for 2005 we have an income of \$15,000 and  
16 expenditure of \$15,200, and this is without any  
17 depreciation. We are only making about 600,000 within the  
18 system, and then we are having to do the drainage  
19 contribution and corporate charges and service charges,  
20 leaving a loss of some \$5.8m in our bottom line. That is  
21 obviously with no return on the asset base, as we would  
22 like to see. You can see from the increase in charges that  
23 we have applied for that we would only be returning into a  
24 profitable situation by 2008. That is showing the profit  
25 and loss for the water, and this shows the sewer situation.

26  
27 I might leave it there. I know the Tribunal would  
28 like to ask questions. Perhaps my friends from Wyong would  
29 like to join us here to help answer them.

30  
31 MR SPANGARO: I have a question that might be relevant to  
32 both Gosford and Wyong. The increases in bills that you  
33 outlined in a slide earlier on are premised in the  
34 reduction in consumption because of restrictions; in other  
35 words, the bills will not increase considerably because  
36 people are using less water even though the price goes up.  
37 If we are optimistic and assume that the drought will break  
38 at some point in time and, as a consequence, consumption is  
39 likely to return to normal, the price increases you propose  
40 for some customers will be very significant. The question  
41 is: have you undertaken any assessment of your customers'  
42 willingness or ability to pay for those price increases;  
43 and have you considered the potential impact of those price  
44 increases on vulnerable customers in particular; and do you  
45 have any measures planned to assist those customers?

46  
47 MR CATHERS: There has been some degree of sensitivity

1 analysis undertaken regarding to future forecasts in terms  
2 of imposts. I have to say that those forecasts that we  
3 have been working to are those that we have already  
4 submitted to the Tribunal. We have not really gone beyond  
5 that in terms of total recovery back to normal because we  
6 really are not in that situation and we do not see  
7 ourselves in that situation in the foreseeable future.

8  
9 MR WILLIAMS: The only comment I would make is that a fair  
10 percentage of our charges are the fixed costs for water and  
11 sewer. Even in the water component the fixed cost  
12 represents something in excess of more than 30 per cent of  
13 the total water bill. Also in terms of our 2050 strategy,  
14 we are looking at a long-term plan of achieving something  
15 like 15 per cent water reduction, so we are looking at, in  
16 fact, reducing the consumption on the long-term basis.

17  
18 MR REID: Can I just clarify two matters: one in relation  
19 to the desired timing and release of the determination by  
20 Gosford and Wyong; and, two, the period of the price path?  
21 Could you tell us, if you like, the latest date that you  
22 would require a release of a determination to conform with  
23 your broader council requirements for a realistic  
24 management plan and charges?  
25

26 The second point is: obviously, at the moment, Wyong  
27 is asking for a two-year price path. I understand Gosford  
28 is still staying with the four-year price path - is it  
29 going back to two?  
30

31 MR WILLIAMS: Yes. I didn't have time to finish my  
32 slides, but I support Wyong's proposal.  
33

34 MR REID: My question then in relation to that is: it  
35 would be appear that your major decisions, whether it be  
36 the Hunter connection or desalination, would be made by  
37 September this year, would then a one-year price path be  
38 more appropriate than a two-year price path?  
39

40 MR YATES: Mr Chairman, I will probably get into trouble  
41 with my rating people back home, but I would say that the  
42 last period in which we would have a determination would be  
43 early to mid-June because we would normally have our rates  
44 issue in early July. I think that would be about the  
45 absolute last time. Mr Thomas might fall off his chair  
46 with me saying mid-June. He may wish to comment further  
47 on that.

1  
2 MR THOMAS: The Water Management Act requires council to  
3 determine its prices by the end of May each year. So there  
4 is a legislative requirement for council to determine those  
5 prices by the end of May.  
6

7 MR YATES: Mr Chairman, I am assuming that the Tribunal  
8 would have something in place to overcome that impediment  
9 by way of Governor's dispensation or some means which I  
10 guess you would be proposing for an August determination  
11 anyway. What I said was predicated on the Tribunal  
12 overcoming that legal impasse which is not unknown to us in  
13 the past, shall I say.  
14

15 Just to address the other question that was raised, a  
16 one-year determination would certainly be of assistance. I  
17 would suggest a two-year determination is preferable, but a  
18 one-year determination is better than four years, in our  
19 estimation.  
20

21 MR CATHERS: Further to that, those issues that we also  
22 identified that we would be in a position to address -  
23 namely, the integrated pricing and the stormwater charging  
24 and effluent - by the next period of time; we would not be  
25 in a position to deal with that in 12 months time.  
26

27 MR SPANGARO: I have a question for Wyong Council related  
28 to stormwater. At the last determination or currently in  
29 terms of prices stormwater operating cost is costed to the  
30 general council rather than the water supply business; it  
31 is, therefore, currently paid for by general council  
32 ratepayers. You propose transferring, for quite good  
33 reasons, these operating costs to the water business so  
34 that they are funded by water customers. My question is:  
35 unless you make some sort of compensating or corresponding  
36 reduction in general rates, are not the customers  
37 effectively paying twice for those costs, once through  
38 their water charges and once through the council rates that  
39 they are paying?  
40

41 MR CATHERS: Could I take a little bit of that first to  
42 say that we have left within the general fund what we  
43 believe to be a best estimate on general fund attributions  
44 towards stormwater costs, for example, kerb and gutter and  
45 what one might call minor stormwater issues that are  
46 general purpose and that council might normally undertake.  
47 Other than that, I would ask Graham Thomas to comment on

1 the other one.  
2  
3 MR THOMAS: In terms of the operating costs, in actual fact  
4 the operating costs of stormwater have been borne by the  
5 water and sewer authority for the last two years including  
6 the current year. Under the direction of the Audit Office  
7 of New South Wales, the water and sewer authority controls  
8 the asset, therefore the cost of maintaining and operating  
9 those assets should be borne by the organisation  
10 controlling those assets. That has actually been in place  
11 for the last two years.

12  
13 As to whether there should be some compensation, my  
14 comment would be that the general fund and the ratepayer  
15 have forgone services as a result of the fact that it has  
16 been subsidising the stormwater operations that should have  
17 been borne by the water sewerage authority.

18  
19 MR YATES: The only other comment I might make,  
20 Mr Chairman, is that, yes, I would agree that that  
21 reduction would be appropriate if we were in a situation  
22 where there were not increasing demands on our general  
23 fund. Because we are a high growth area, we find that  
24 general fund in itself is always looking for more money,  
25 shall we say. From that point of view, there are increases  
26 needed in general funds and I would anticipate this year  
27 that we would be applying to the State Government for some  
28 increases over and above what might be allowed by the CPI  
29 in any case.

30  
31 MR REID: This is a question for Gosford Council. There  
32 has been some discussion and correspondence in relation to  
33 backlog sewerage for some particular areas. I am just  
34 wondering if you could tell us the current status of those  
35 schemes and the what is the charging for those schemes.

36  
37 MR WILLIAMS: This matter was considered by the council on  
38 28 January. The matter that was put to the council was  
39 basically whether to go back to IPART and ask for a  
40 redetermination because, at the moment, the way we charge  
41 areas that are outside the current sewer area is based on  
42 an IPART determination. The council basically said it  
43 wanted the situation to be status quo. As a result of  
44 that, the council has written to the minister saying that  
45 the it decided not to review the backlog sewerage method of  
46 charging. As a result of that, any areas like Mooney  
47 Mooney, Cheero Point, Bensville will basically have to pay

1 the full price less any subsidy that is provided by the  
2 State Government.

3  
4 THE CHAIRMAN: Thank you very much, I am going to break  
5 for lunch now. It is 1 o'clock. I propose that we resume  
6 at 1.45.

7  
8 LUNCHEON ADJOURNMENT

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1 UPON RESUMPTION:

2  
3 CENTRAL COAST ENVIRONMENT NETWORK

4  
5 THE CHAIRMAN: In case there are any presenters this  
6 afternoon who were not here this morning, I will just  
7 repeat what I said this morning. You have all been given  
8 an allotted time. However, it is easy to not keep an eye  
9 on time if you're presenting, so I will catch your eye and  
10 tell you when you have three minutes to go. We are keeping  
11 pretty much to the clock. I am now going to call on the  
12 Central Coast Community & Environment Network to  
13 present. John, you have the difficult task of being the first  
14 speaker after lunch.

15  
16 MR ASQUITH: Thank you, Mr Chairman, I will try and keep  
17 people awake. I am here representing the Central Coast  
18 Community & Environment Network. We are a not-for-profit  
19 NGO concerned with ecological sustainability. In October  
20 of last year we put in a fairly lengthy submission to the  
21 Tribunal. I will not go through all the points in that  
22 submission, but I will address some key points that, to my  
23 mind, are the important aspects of the Tribunal's work.

24  
25 I should just mention that I hold positions with the  
26 Nature Conservation Council, which I understand will be  
27 making a submission later today; the SCA, who appeared this  
28 morning; and the CMAs, who I don't think have made any  
29 submissions. I just wish to make it clear for the record  
30 that I am not speaking in a capacity of being involved with  
31 any of those organisations; I am speaking purely for the  
32 Central Coast Community & Environment Network.

33  
34 I am a bit unsure of just how much of this is within  
35 IPART's brief to look at, but the first thing that I wanted  
36 to mention was that the councils have had a Price  
37 Waterhouse study done relating to five structural forms for  
38 the councils operating together. The preferred option,  
39 which is option 3, is the one that our organisation thinks  
40 would be a reasonable way to go. It is one where ownership  
41 is retained with the councils, but Price Waterhouse's study  
42 showed an NPV saving of around \$29m over the next 10 years  
43 under that structure and the changes it would bring. We  
44 would like to see those issues addressed by the Tribunal  
45 even though I understand they may be outside its terms of  
46 reference at this stage.

47  
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1 The second thing again is outside the terms of  
2 reference, but we have written to the government in regard  
3 to an operating licence. Of the organisations presenting  
4 this morning, the Gosford-Wyong area is the only one  
5 without an operating licence. We believe that is strongly  
6 needed to support many of the things that are covered by  
7 pricing determination and for the quality of service that  
8 the consumers get. To some extent people on the Central  
9 Coast are disadvantaged and treated as second-class  
10 citizens by not having an operating licence to cover that  
11 area of the council's operations.

12  
13 Going into the key issues, the councils have outlined  
14 short-term, medium-term and long-term options. The  
15 short-term options are of most concern to us. We are  
16 unsure of the basis for the various scenarios that are  
17 raised in regard to climate change and the extent of the  
18 drought and what is and is not a reasonable decision. It  
19 seems to us that that emphasis on the short-term needs to  
20 be validated in some way in order that some confidence  
21 comes into it all.

22  
23 Certainly in the short term we would like to see more  
24 reduction in demand via price signals and rebates. We  
25 believe the water tank rebate should be increased and that  
26 it should be made much more user friendly for customers.  
27 It is quite daunting for people. When I talk to them, they  
28 say they are seeing prices between \$1,000 and \$10,000 to  
29 have a tank system put on and they may or may not be  
30 eligible for a \$500 rebate or thereabouts. That is just  
31 stopping people from going down that path, even though  
32 there is a lot of the community support for it.

33  
34 Another point relates to a rebate on a water-efficient  
35 washing machine. The figures we have been given show that  
36 demand could be reduced by around about 14 per cent per  
37 household with the changeover from top-loading to  
38 front-loading or similar washing machines. Purely based on  
39 the water tank rebate at \$500, we think a figure on washing  
40 machines, using a similar sort of methodology, would  
41 probably make a rebate of \$250 justifiable.

42  
43 We support the step pricing or pricing signals that do  
44 penalise high consumers. From analysing the limited data  
45 that the councils have - it is quite difficult to interpret  
46 some of that data because it is in sort of blocks - it  
47 seemed to us that the top 10 per cent of domestic consumers

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1 are using around about 30 per cent of the water supply.  
2 Those people are probably significantly above the average.  
3 We really think that there needs to be an effort to narrow  
4 down that distribution curve, and pricing is one of the  
5 types of signals. Certainly from what we get told by the  
6 public there would be a lot of public support for  
7 penalising people who are using extravagant amounts of  
8 water.  
9  
10 We believe also that the demand reduction targets  
11 which are currently set at around about the 15 plus per  
12 cent - and I think in the IPART submission that figure is  
13 used to justify the prices - should be much more  
14 aggressive. Our indications were included in the detailed  
15 figures in our submission. We compared the demand  
16 reductions that have occurred in Sydney with those on the  
17 Central Coast. Until about October of last year, the  
18 Central Coast did not appear at all to be responding in a  
19 positive way to restrictions. So there is a need to really  
20 reinforce that.  
21  
22 I agree with what was said by Hunter Water about the  
23 community being more sensitised because of the work of  
24 Patterson some years ago. But there is another factor at  
25 play in the Hunter and that is the fact that it does go in  
26 and out of restrictions much more often because of the  
27 nature of the system. That has created a sensitivity in  
28 the community, and there may be a case for the Central  
29 Coast looking at the algorithm on its restrictions because  
30 if you look at the system, there is an amount of storage at  
31 Mangrove Dam, but it can only capture around about 10 per  
32 cent of supply in an average year, because most of the  
33 system is run of river; yet the algorithm for restrictions  
34 is largely based on the dam level. So there is a  
35 disconnection there between the water that is in the dam  
36 and the water people are consuming. The dam could be empty  
37 and we might have plenty of water because the rivers are  
38 running well or vice versa.  
39  
40 So the figures that have been chosen there are largely  
41 subjective; nonetheless there is a problem with that. We  
42 believe that part of the answer has to be to look at that  
43 large dam. It is a huge capacity, but it has a very small  
44 catchment and some system will have to be found to increase  
45 the inflow into the dam. It is quite clear to us, and from  
46 talking to people, that people do not have confidence  
47 because of the low level of the dam at the moment, even

1 though it is only a back-up supply, and that something  
2 greater than 50 per cent in the dam will be needed before  
3 people have a degree of confidence in the security of their  
4 water supply.  
5  
6 We support the increase in interconnection with the  
7 Hunter, partly because the water is all treated. As a  
8 policy position, the environment groups are generally  
9 opposed to inter-catchment transfers because of the impact  
10 that may have on environmental flows and that sort of  
11 thing. In this case, it is treated water. Much has been  
12 made on the Central Coast of the cost difference. Hunter  
13 Water, as I understand, is 93 cents, Wyong/Gosford is  
14 around 75 cents, so it is a marginal cost increase of  
15 18 cents or 3.6 per cent if providing 20 per cent of  
16 supply.  
17  
18 With respect to ground water, on the other hand, which  
19 is one of the other short-term options being looked at, we  
20 understand the figure for that is about 47 cents. There is  
21 a sort of negative marginal cost there, but it seems to us  
22 again that the interconnection with the Hunter would  
23 provide more stability and security in the system because  
24 you are basically joining two systems together, which,  
25 without analysing, one would think would create a much more  
26 stable system and give both systems more security. Also in  
27 discussing this with some academics, they feel that the two  
28 systems are subject to different climatic situations so the  
29 options for transferring back and forth are likely to be of  
30 benefit to both at various times because of that  
31 significant difference in climates.  
32  
33 Going on to demand management, the non-pricing signal  
34 we would like to see is internal demand management - that  
35 is in domestic - by the use of technology. We do not see  
36 any evidence that there is much impact in terms of people's  
37 internal use of water given by "Save water" messages.  
38 There are probably some small figures coming through there,  
39 but there will not be a lot.  
40  
41 We would like to see the refit program expanded.  
42 Councils have recently done some work to expand it by  
43 putting in weights for toilets. We would like to see the  
44 washing machine subsidy introduced, as we mentioned  
45 already. That would have to be graded depending on the age  
46 of the machine and how much life it has left. The figures  
47 show that around 14 per cent of supply could be saved at a

1 domestic level by using front-loading washing machines.  
2 That is something that has no impact on people's lifestyle.  
3 It is not saying to you that you cannot have a shower. It  
4 does not have an impact on lifestyle, health and many other  
5 things. It is purely just using the technology to solve  
6 the problem.

7  
8 Also we recommend doing what I understand Sydney Water  
9 has done and that is to start giving away do-it-yourself  
10 refit kits. We think that is a good way to go. As to the  
11 external water usage on the home, we see increasing the  
12 rebate on tanks and reducing barriers to installation as a  
13 large part of the solution there.

14  
15 As I have said before, step pricing would be supported  
16 by the community. Most people, in surveys done on the  
17 Central Coast, think water is too cheap. A survey was done  
18 last year at a large festival. That was one of the results  
19 that came out of it. Whether that translates to people  
20 being happy when they get their water bill, I guess is  
21 another thing, but it certainly is what those who answered  
22 the survey were saying at this stage.

23  
24 We realise there are limitations on what the Tribunal  
25 is able to do in the short term because, as I understand  
26 it, the councils have slightly different positions on step  
27 pricing. We certainly see it as an objective that should  
28 be there for the longer term that would yield if not a  
29 direct reduction in demand, at least a sense of equity in  
30 terms of if you use a lot of water, you pay a lot for it.  
31 At the moment there is a feeling that people who are saving  
32 water, if they have vegie gardens or large families, are  
33 not able to see the benefit; yet we do have a percentage of  
34 consumers who are using quite large amounts. This is  
35 obviously an issue that needs to be addressed.

36  
37 We believe also that the pricing should include a  
38 component to pay for the environmental services by the  
39 catchment and estuary through rehabilitation. The first  
40 thing to say is that there are roughly five sources of  
41 water on the Central Coast. Of those the ground water,  
42 Ourimbah Creek and Jiliby Creek have had water management  
43 plans done for them. However, Mooney Creek, Wyong River  
44 and Mangrove Creek do not have environmental flows or water  
45 management plans considered for them. The reasons they  
46 have largely been put on the backburner was that Mangrove  
47 and Mooney, which flow into the Hawkesbury-Nepean

1 catchment, were seen to be too difficult given the dry  
2 situation - that was in 2000 when there was an expert panel  
3 report done - and Wyong River has not been addressed at  
4 this stage.

5  
6 We believe it is really important that a holistic  
7 approach be taken to all those water sources and that the  
8 demands of both the environment and the community be  
9 addressed in a holistic sense. We are seeing many demands  
10 on the water system from quarrying, ground-water extraction  
11 and water bottlers as well as the normal agricultural  
12 pursuits of the coast. Ground water, which does not come  
13 into the bailiwick of the Tribunal in this hearing, as I  
14 understand it, is thought to provide 70 per cent of the  
15 surface water in the streams. So, by not addressing the  
16 issues that go with the extraction of ground water from the  
17 large aquifers on the coast, we are really creating a  
18 problem which will come back to bite us in years to come  
19 when stream flows will start to be affected.

20  
21 The second component of that is the environmental  
22 services in terms of catchment in particular agricultural  
23 and other activities down the Wyong valleys or up on the  
24 plateau. Also quarrying is using quite a lot of the water.  
25 The equivalent of roughly 20 per cent of the water that is  
26 being used for domestic purposes on the coast at the moment  
27 is currently used for quarrying out of the ground water  
28 sources. They are both around the 6,000ML or 7,000ML a  
29 year. That water does not go through any water authority.  
30 It just comes out of the resource in the ground, but at the  
31 end of the day what happens is very likely to impact on our  
32 stream flows and will affect us, as I have said before.

33  
34 The other part on the coast that is affected by  
35 reduced flows coming down through the streams where the  
36 extraction is occurring is obviously the estuary, the  
37 Hawkesbury-Nepean and the Tuggerah Lakes system. The  
38 water-sharing plans that have been put in place have been  
39 for fairly low dry weather flows around about 4 per cent.  
40 96 percentile is where it has been set. We are quite  
41 concerned that, with the impacts on the lakes and the  
42 Hawkesbury-Nepean, there will not be the money to pay for  
43 fixing up those systems which have been impacted by  
44 reduced flows. Quite a lot of money, for example, goes into  
45 trying to keep the mouth of Tuggerah Lakes open because of  
46 reduced flows.

1 I wish to make my last couple of comments mostly on  
2 desalination because I note that desalination was pushed in  
3 the councils' submission to IPART. We are opposed to  
4 desal. There is a range of reasons for that. Putting  
5 aside the greenhouse impacts and the debate that goes with  
6 that and that it is quite expensive water, we think that  
7 using technology in that sort of situation rather than  
8 managing and looking after your catchments is not a  
9 sustainable water solution. There are better alternatives.  
10 I think I've outlined a few of those. We believe more  
11 emphasis on those solutions would yield good results.  
12  
13 It will not solve the problem of limited rainfall in  
14 the storage catchments. Mangrove Dam has a very small  
15 catchment. It can basically, in an average year, go up by  
16 about 12 per cent if it is an average year. So it takes  
17 roughly 10 years of average rainfall to fill Mangrove Dam,  
18 and that seems an awful long time to stay on water  
19 restrictions or near to it.  
20  
21 It is our belief that if climate change is such a  
22 serious issue that the councils need to adopt these models  
23 which call for a two-year price path, the climate change  
24 issue really needs to be cranked up a level because the  
25 demand for water is largely related to planning issues,  
26 population growth in the area, as the councils have  
27 mentioned. If it is so serious that we do need to adopt  
28 both a two-year price path and going into desalination,  
29 then it needs higher levels of government to really start  
30 to look at where we are going to go because it is quite a  
31 serious situation to have 300,000, 400,000, maybe 500,000  
32 people here over the next 20 years and to not have adequate  
33 water for them.  
34  
35 We do not support arguments for a two-year price path.  
36 What is particularly concerning about that, listening to  
37 the presentation this morning, is that in September this  
38 year the councils are looking to make a decision on  
39 desalination. A two-year price path would essentially  
40 validate that decision without any further review. We feel  
41 that if the two-year price path were chosen, the decision  
42 on desalination needs to be closely linked to it not  
43 disconnected, which I think is what the submissions this  
44 morning seemed to be suggesting.  
45  
46 We believe that more development in the catchments is  
47 part of the agenda. Some would say that is just an

1 environment group's paranoia. It may be; however one of  
2 the things that has recently happened is that the councils  
3 have dropped plans for a special areas regulation over the  
4 catchments. While that was going ahead, we had a lot of  
5 confidence in the future of the catchments being protected.  
6 We believe they should have a special area of regulation  
7 and that is part of the reason that we want to see an  
8 operating licence.  
9

10 Lastly, I would just say that the effluent reuse on  
11 the coast is extremely low even with the councils'  
12 proposals. We would like to see that considerably ramped  
13 up. The power industry, for example, uses 3 per cent; so  
14 there is no reason why it could not go to 3 per cent in a  
15 relatively short time. Thank you very much, Mr Chairman.  
16

17 MR SPANGARO: In your submissions, as I understand it, you  
18 advocate an increased level of extraction from the Wyong  
19 River and the water supply authority as a possible  
20 alternative to desalination. We have been advised by the  
21 council that they have hanging over them the prospect of a  
22 water-sharing plan for the Wyong River which would very  
23 significantly alter the level of water they can take from  
24 the river. In your view, do you think that sort of  
25 environmental flow regime could be advanced as a viable  
26 option?  
27

28 MR ASQUITH: We do not have as much information available  
29 as the councils. With what limited information we have to  
30 us, there seem to be two answers to that: first off we  
31 need to get in and actually sort out the environmental  
32 flows equation, because at this stage there are several  
33 scenarios and we really do not know which one leads to what  
34 extraction level. Our belief is that the first step that  
35 should be taken is with the water market. The first step,  
36 if councils wanted to increase their extraction, would be  
37 to go on the water market and see who wants to sell water  
38 to them. There is agriculture going on along Wyong River.  
39 It seems to us there is up to 10,000ML per year coming out  
40 of there. It may not be that big, it may be 6,000 or  
41 7,000; nonetheless that is the size of a desalination  
42 plant.  
43

44 You will not know how much of that water is available  
45 until you go on the market. I have certainly spoken to  
46 some farmers about it. They tell me they have water to  
47 sell and if someone comes on with the right price, they

1 would be very keen to be on market because they have put in  
2 water efficiencies and so on. For us it seems fairly  
3 benign, in an environmental sense, to go on the market and  
4 make use of that opportunity.  
5

6 The second thing would be to take a holistic approach  
7 to water sharing out there in terms of the streams and the  
8 ground water and come to some real answers because, at the  
9 end of the day, the impact of the Wyong River is on the  
10 Tuggerah Lakes. Immediately downstream of the weir at  
11 Wyong River, Porters Creek comes in. Porters Creek  
12 catchment has had a lot of the development. In fact, it is  
13 now showing evidence of quite high flows coming in there  
14 because of all the subdivision, roads, et cetera, going in.  
15 It is a very short section of river you are talking about  
16 between the weir and the Porters Creek joining of the Wyong  
17 River. It is a kilometre or that short of range. You  
18 really need to get some science into that to just see what  
19 the actual impact is on the lake because it is when the  
20 creek reaches the lake or the river reaches the lake that  
21 the impacts are being felt. We feel that that is a far  
22 better way to go in terms of sustainable water supply.  
23

24 MR REID: Can I just ask you a couple of questions on  
25 demand management. The first question is: can you tell us  
26 what the current frequency of billing is on the Central  
27 Coast?  
28

29 MR ASQUITH: That is a good question. It is normally  
30 about twice a year, but the periodicity is fairly  
31 irregular. I have just received a bill for 10 months worth  
32 of water at home. I think it is meant to be about twice a  
33 year, but it varies, for whatever reason. We have talked  
34 to the council about making really clear on people's bills  
35 what their consumption is compared to average because you  
36 cannot tell. Only boffins can sit down and calculate that  
37 out. It is currently one and a bit. We believe if it goes  
38 to three, as the councils have suggested, then that cost  
39 needs to be looked at in a more equitable way than seems to  
40 be evident in their submissions.  
41

42 MR REID: You talked about savings, if you like, from a  
43 joint water supply authority of about \$29m. Could you just  
44 outline where it is said the savings could be achieved?  
45

46 MR ASQUITH: They are primarily in joining the bulk water  
47 operation to the distribution of water to the sewerage and

1 drainage operations. As I read it, labour and overheads  
2 seem to be where it was in in the submission that I read or  
3 the Price Waterhouse study. The first three models are  
4 ones where the council essentially owns the asset and there  
5 are degrees of separation. Option 1 is business pretty  
6 well as usual. Option 2 is cranking it further - I think  
7 the saving there is about \$8m over the 10 years. Option 3,  
8 which is to get a more independent board but still have the  
9 councils owning the business, but really run it along a  
10 business line, is where you achieve the \$29m. Option 5,  
11 which is a very much arms-length one, I think the figures  
12 there are about \$59m.  
13

14 To us that is a very significant savings and we think  
15 it is quite unreasonable because the ratepayers and  
16 residents and, at the end of the day the environment, will  
17 have to bear the costs because, at the end of the day,  
18 pipes will have to be laid, et cetera, to supply water or  
19 take away the sewage. To our way of thinking there needs  
20 to be more emphasis on that in balancing this equation out.  
21

22 THE CHAIRMAN: Thank you very much. I will now ask the  
23 representative from the Department of Environment and  
24 Conservation to come up.  
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1 DEPARTMENT OF ENVIRONMENT AND CONSERVATION

2  
3 MR SMITH: My name is Simon Smith. I am the Deputy  
4 Director-General of the New South Wales Department of  
5 Environment and Conservation. I am here to speak to the  
6 submission that we put to the Tribunal.

7  
8 I wanted to emphasise the role and priorities of the  
9 department. The department has been formed to combine the  
10 functions of the Environment Protection Authority as well  
11 as the former state body Resources New South Wales and the  
12 National Parks and Wildlife Service. Hence, our interests  
13 in this matter are, firstly, our regulatory role as the  
14 setter of environmental requirements for the sewerage  
15 system that Sydney Water operates and, secondly, our focus  
16 is on river health in the Hawkesbury-Nepean as the body  
17 charged with helping to improve water quality in New South  
18 Wales rivers.

19  
20 Our interest in that matter leads us also inevitably  
21 to the question of efficient use of water. The current  
22 situation is that the Hawkesbury-Nepean River is in poor  
23 condition, largely as a consequence of excessive  
24 abstraction for water supply largely for suburban and urban  
25 and industrial use but also for agricultural purposes.

26  
27 The two prongs, therefore, of our submission cover  
28 that, in our view, the historical approach to pricing of  
29 water, focussing on driving economic efficiency in the case  
30 of the utility, inadequate return on capital, in our view  
31 represents a missed opportunity. We don't have any problem  
32 with driving economic efficiency or proper return on  
33 capital. It's just we believe that the price signals as  
34 structured create a situation where there is averse  
35 incentive for Sydney Water to sell more water and there is  
36 a failure to communicate scarcity to Sydney Water's  
37 customers.

38  
39 I just say anecdotally that a neighbour mentioned they  
40 had had a pool built and they figured out it would cost \$30  
41 to fill it, and I think what possible incentive is there  
42 for people to economise on water when it is so cheap? We  
43 think there is clearly scope to improve price incentives  
44 without increasing overall costs for people, and as I'll  
45 mention in a minute.

46  
47 The second prong of our submission relates to the

1 interaction between the environmental requirements that our  
2 agency specifies in Sydney water's licences, the costs of  
3 compliance that arise for Sydney water in meeting those  
4 requirements, and the play of determination of the  
5 appropriate set of requirements that takes into account all  
6 of the society's priorities for investment in environmental  
7 protection and other matters.

8  
9 So, clearly, as the Government has responded with the  
10 Metropolitan Water Plan, we do have problems with water  
11 supply in Sydney, with growth of population. Over, say,  
12 the last 10 years, real incomes for Sydneysiders have grown  
13 in the order of a third, whereas real prices for water have  
14 fallen in the order of five per cent. It is clear that, as  
15 the Government's plan signals, significant new investment  
16 is required to upgrade water supply infrastructure. So  
17 this will not be news to you, ladies and gentlemen.

18  
19 Essentially, we accept that an inclining block tariff  
20 is a good first step, but as I think our submission makes  
21 clear, our view is that it really is a minimal first step.  
22 Our view is that further reform in the direction of a  
23 charge solely based on consumption is beneficial in all  
24 directions. We think this would allow for much more  
25 powerful incentives for people to economise when they use  
26 water and, in particular, it makes the calculation about  
27 what is an appealing response to water price for the end  
28 user a much more favourable calculation for water  
29 efficiency, for recycling, rainwater capture and so forth.

30  
31 People do the sums, they look and see, "How much will  
32 it save me if I introduce this water-saving measure?".  
33 They look to the price of water that they would avoid and,  
34 if the price per unit is low, then it makes the case for  
35 change unfavourable. That is because so much of their bill  
36 is locked into the fixed component, which they cannot avoid  
37 by better water use behaviour.

38  
39 So, just to conclude on water pricing, I think the  
40 Tribunal would need to consider - and they would be better  
41 placed than we - devising a solution to the issue, but  
42 there needs to be some kind of mechanism so there is a  
43 reward for Sydney Water to reduce sales because what we  
44 want to see is less water ultimately taken from the river.  
45 Obviously, Sydney Water should be at liberty to seek water  
46 from whoever could supply it. At the moment the water  
47 comes from the existing dam network operated by the Sydney

1 Catchment Authority. Too much water is taken from those  
2 dams to supply Sydney Water's customers, which means the  
3 river is unhealthy.

4  
5 So our view is whatever the Tribunal can do to provide  
6 mechanisms so that Sydney Water can access water supplies  
7 from other places and also be rewarded as a corporation for  
8 introducing measures that help people use less water - both  
9 of those things are matters we suggest that the Tribunal  
10 needs to properly consider and respond to in order to  
11 provide an appropriate regulatory framework for the  
12 corporation.

13  
14 I just wanted to turn now to our regulatory function  
15 in relations to sewerage overflow licensing. We regulate  
16 both the sewerage treatment plants that Sydney Water  
17 operates, so that includes the very large plants that  
18 discharge into the ocean and also the smaller plants that  
19 discharge ultimately in most cases into the  
20 Hawkesbury-Nepean catchment which then flows to the sea.

21  
22 So we regulate the sewerage treatment plants, and we  
23 have done for many years, but more recently we have also  
24 commenced regulation of the sewerage reticulation systems,  
25 and now the history is that the sewerage treatment plants  
26 needed a lot of work to get them into a satisfactory  
27 condition, and Sydney Water has done a very good job,  
28 particularly in the inland plants, in upgrading the level  
29 of treatment that is provided for those plants. So large  
30 reductions in nitrogen and phosphorous discharges have been  
31 achieved in the inland plants, and the licences now contain  
32 annual mass limits on pollution discharges which means, as  
33 population grows, Sydney Water has to work harder to  
34 maintain those mass discharges. The principal behind that  
35 is that just because there is more wastewater to be dealt  
36 with doesn't mean the river has capacity to accept  
37 pollution has grown with it. So that system is in place  
38 and working well.

39  
40 So our focus in recent years has been on the  
41 reticulation system. That is because the reticulation  
42 system in many cases is old and overloaded and in the past  
43 has overflowed regularly both during wet weather and in dry  
44 weather, and this has significant impacts on recreational  
45 water quality where people would like to bathe and also on  
46 the health of waterways as well.

47

1 So Sydney Water came to us some years ago and said,  
2 "We would like to have our licence coverage extended to  
3 include the reticulation system", and the appropriate means  
4 for doing that was that Sydney Water prepared environmental  
5 impact statements to examine what the impacts would be and  
6 then made a determination as to what would be a  
7 satisfactory level of performance to achieve by 2021.

8  
9 So our regulatory job is essentially to guide our  
10 licence conditions, which vary periodically, to eventually  
11 have Sydney Water meet those standards that were set out in  
12 the environmental impact statements. I am pleased to  
13 report that progress is generally good. Sydney Water is  
14 committing to measured progress. We have gone through and  
15 looked at each reticulation system and largely agreed on a  
16 process which will take Sydney forward from where it is  
17 today to where it needs to be over the longer term.

18  
19 We are quite happy with how that process is  
20 progressing in our view. There are some matters that will  
21 need to be resolved, but they are matters that largely  
22 impacts on the period outside this price determination. So  
23 if there are any specific issues that you want to raise in  
24 questions, I would be happy to take that, but essentially  
25 it is our view that progress is satisfactory on negotiating  
26 those requirements.

27  
28 Some of the important new requirements which have been  
29 hotly debated, I guess, between ourselves and Sydney Water  
30 in the past are whether or not any overflows are  
31 permissible from pump stations. Pump stations are  
32 potentially very large sources of discharge and our licence  
33 will shortly require that none is permitted. This is a  
34 reasonable requirement because Sydney Water has largely  
35 upgraded most or all of the pump stations that need to be  
36 upgraded. The issue in the past has been an aversion to  
37 accept a regulatory risk of failing to comply with the  
38 standards, but I think we have managed to convince Sydney  
39 Water that we are reasonable people and, if an overflow  
40 happens, we consider the facts of the case before deciding  
41 whether or not to take regulatory action. This is a  
42 satisfactory situation in our view.

43 Where much more work, of course, is required is in the  
44 whole network of pipes that constitutes the reticulation  
45 system, and we have set the requirements for improvements  
46 in wet weather and dry weather discharge and we can work  
47 through those.

1  
2 I guess one area that is important to discuss is the  
3 four large reticulation systems that serve the older parts  
4 of Sydney and the discharge into the ocean, either North  
5 Head, Malabar and so forth. Getting those systems up to  
6 standard is not a simple matter at all and this is  
7 potentially a very large cost if we wanted to make progress  
8 to where we would like to be in 2021.  
9  
10 We have reviewed the costs that might be involved in  
11 that and have come to agreement with Sydney Water on  
12 alternative approaches that involve identifying the  
13 particular hotspots within those systems where overflows  
14 cause the biggest environmental impacts and then evaluating  
15 whether works could address those problems, because it is  
16 not always the case that because there is a problem you can  
17 fix it easily. If you know what it is, that will be  
18 addressed.  
19  
20 One of the issues that no-one is pleased with is the  
21 continuing discharge of raw sewage into the harbour from  
22 the Vacluse-Diamond Bay systems, but we believe that  
23 through the longer term process of upgrade, that would be  
24 addressed as part of the system requirement. Those are the  
25 points I wanted to make. I am happy to answer any  
26 questions of anyone.  
27  
28 MR REID: From what you are saying, it is fairly settled  
29 regulatory requirements for the next four or five years  
30 with each of the water agencies?  
31  
32 MR SMITH: That's right. Basically, our licensing system  
33 used to be that we would have to actually reissue a licence  
34 every year, and that didn't provide a sound basis for  
35 investment. So we found ourselves having a lot of  
36 arguments, in the context of a one-year licence  
37 negotiation, how we could set out a rationale program of  
38 works to be done over a five-year period.  
39  
40 Our laws were changed by the Government to provide a  
41 better framework that the licences are ongoing and we have  
42 an agreement with Sydney Water through an MOU over the  
43 way we review major requirements. We are now in a position  
44 where we have decided that it was much better for both  
45 organisations if we looked at what it should be for the  
46 next five years, settle that down and then Sydney Water can  
47 get on with its job of implementing the requirements.

1  
2  
3 MR REID: In the Sydney Water submission, they raise the  
4 issue that probably the greatest benefit, if you like,  
5 would be achieved from expenditure on private property for  
6 some of the overflows, but there were some regulatory or  
7 legislative restrictions, if you like, that may stop that  
8 happening. Can you tell us about that.  
9  
10 MR SMITH: Yes, I can tell you about that. Basically our  
11 system doesn't regulate private sewer lines. That's a  
12 matter of the contract with the customer that Sydney Water  
13 has. So our regulatory requirements are not an impediment  
14 to Sydney Water undertaking work there.  
15  
16 Our approach is always, when setting regulatory  
17 requirements, to specify the outcome and allow Sydney Water  
18 to determine the means by which that can be most  
19 cost-effectively achieved. So I believe that Sydney Water  
20 itself is best placed to advise - I think it relates to its  
21 own statutes and rules, not to do with our department's  
22 rules, but we are completely open to Sydney Water coming  
23 forward with a program to invest in that as a solution  
24 compared to other means, if that is what they believe is  
25 the most cost-effective.  
26  
27 MR SPANGARO: You commented briefly on potentially a very  
28 significant cost of upgrading the reticulation systems that  
29 lead to the major ocean plants. Given that cost and given  
30 that at the moment the level of treatment in those plants  
31 is minimal, are you able to comment to us, given those  
32 facts, on the environmental outcomes, the long-term  
33 environmental assessment, of the effect of those ocean  
34 discharge plants?  
35  
36 MR SMITH: You have to separate the effect of the  
37 discharge, which is in the ocean, versus the impact on the  
38 harbour and the rivers where the reticulation system  
39 overflows. The EPA had, within its framework, a set of  
40 requirements for long-term testing for health of the ocean  
41 bed, where the discharge from the extended ocean outfalls  
42 is, and the information I have is that the monitoring shows  
43 that the impacts in terms of water quality from pollution  
44 is low from the outfalls.  
45  
46 So we're not focused on ramping down the quantity of  
47 pollution discharge from those as a priority, compared to

1 upgrading the performance of the reticulation network that  
2 impacts quite demonstrably on bathing water quality in the  
3 harbour and so forth. I think probably in relation to  
4 impacts, the more relevant consideration for the big ocean  
5 outfalls is that it represents a very large source of  
6 potential water for reuse, if such a scheme was  
7 established, simply because you have a large volume of  
8 wastewater all arriving at one point.

9  
10 MR REID: You suggest that the full cost of water supply  
11 should include environmental costs. In saying that, are  
12 you going beyond the cost that may be incurred by the water  
13 agencies in doing remedial works to repair any  
14 environmental damage that is done, and, if so, have you  
15 made any estimates of what that environmental cost may be  
16 included in water prices?

17  
18 MR SMITH: Yes, we are in theory because we think the full  
19 cost of supplying water to customers should be what is  
20 charged, and, clearly, there are some very large  
21 environmental costs that are borne by the community in  
22 terms of poor water quality in the Hawkesbury-Nepean River  
23 and so forth. So we think a means ideally should be found  
24 that the prices would be reflected in that because the  
25 consequence would be that a higher price would then open up  
26 competing opportunities for access to water or reuse of  
27 existing water, which would then in turn reduce that impact  
28 on the environment. But we have not done any specific work  
29 to quantify what that charge ought to be.

30  
31 THE CHAIRMAN: Thank you very much. I would now like to  
32 call on the representative of Services Sydney, John van der  
33 Merwe.

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1 SERVICES SYDNEY

2  
3 MR VAN DER MERWE: Thank you very much. We currently  
4 have an access application in front of the National Competition  
5 Council. I think most members of the Tribunal are familiar  
6 with that. We would like to talk about our alternative  
7 water system for Sydney, and I think it would be best just  
8 to briefly run the Tribunal through our assessment of the  
9 water supply and demand balance.

10  
11 This shows the Sydney Water supply system until 1960.  
12 Essentially, there are storage dams in the Southern  
13 Highlands which were completed in 1935 through Upper  
14 Canal to Prospect, Warragamba was completed in 1960, and  
15 that supplies water into Sydney.

16  
17 We didn't know what the impact of storage and dam  
18 walls were and, as many people have presented here today,  
19 there are some significant problems with the  
20 Hawkesbury-Nepean downstream of the dam walls. There  
21 were various numbers postulated by various organisations  
22 before. We have used the latest one of the Hawkesbury-  
23 Nepean River Management Forum - a figure of 127GL/a.

24  
25 There is also a lot of agriculture extraction along  
26 the river. IPART themselves nominated a figure of 80GL/a.  
27 The latest one is New South Wales agriculture at 130. The  
28 Hawkesbury-Nepean River Management Forum is at 100GL/a  
29 and there are also other extractions: Industry, Penrith Lakes  
30 and also North Richmond Water Filtration Plant at 8GL/a.

31  
32 In the 1970s, there were the same concerns as we had  
33 today. We went to the Shoalhaven. We as the community of  
34 Sydney in our assessment did the unforgivable by plundering  
35 another river system, and we currently have quite an  
36 expensive transfer system across from the Shoalhaven into  
37 Sydney, and it is expensive in that there are significant  
38 pumping costs associated with getting that water across, if  
39 we just purely ignore the environmental damage or potential  
40 damage to the river system itself.

41  
42 That gives the whole system, as we sit today, a  
43 sustainable yield of 600GL/a. We just call that "apples".  
44 That is what that apple tree would yield for us on a  
45 sustainable basis every year, obviously if we look after  
46 it.

47

1 It is important to look at the long-term effects of  
2 climate shifts, global warming. There has been recently  
3 quite a significant climate shift associated with most of  
4 Australia's major capitals and, in the last 15 years, quite  
5 a significant shift in the case of Sydney as well. That  
6 has been ignored by the Hawkesbury-Nepean River  
7 Management Forum. Our assessment at this point in time is it  
8 is also not in the Metro Water Plan, and the met water plan  
9 uses the figure of 600GL/a.

10  
11 If we go to the overall supply and demand balance, it  
12 is important to look at the blue bars there. This is the  
13 next 30 years from 2005, as we look forward. The potable  
14 consumption comes down from roughly about 600 to about 538.  
15 Very importantly I would note that that is with 100 per  
16 cent success in demand management matters, and that  
17 includes water-efficient washing machines, shower heads,  
18 toilets, rainwater tanks. For the sake of our argument, we  
19 have allowed 100 per cent success.

20  
21 You will see the blue bars going up for the next 25  
22 years after that, the explosive growth rate for Sydney. On  
23 top of that, you will see the dark green agriculture  
24 extraction we have discussed, as well as the 127GL/a in  
25 environmental flows.

26  
27 At the top line, the black line, that gives you the  
28 overall demand curve of a sustainable water system for  
29 Sydney. In red you have the declining sustainable yield if  
30 global warming comes in. So the difference between red and  
31 black really is your deficit to get to the sustainable  
32 water system.

33  
34 Regarding water augmentation options, we have  
35 discussed that extensively. Governments looked at that  
36 extensively in the Metro Water Plan. Essentially there are  
37 four options: Welcome Reef, that has been discounted;  
38 increased transfers from the Shoalhaven; desalination; and  
39 Services Sydney's position largely on water reclamation for  
40 many years.

41  
42 We would like to submit some issues associated with  
43 each one. It is encouraging to know that the current  
44 government has basically indefinitely deferred Welcome Reef  
45 Dam. We support that. Increased Shoalhaven transfer is a  
46 significant problem for us for various reasons. You still  
47 have to pump across. You really threaten the health of the

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1 system. There are these exotic species transfers between  
2 the rivers and significant cost-shifting between the river  
3 systems.

4  
5 As to desalination - large-scale water reclamation  
6 will always be more cost-efficient and more economical than  
7 that for various reasons; namely, the same membranes at the  
8 end and there is no greenhouse efficiencies associated with  
9 desalination.

10  
11 This is the Metro Water Plan - more water more often  
12 from the Shoalhaven and desalination, but most importantly,  
13 if you transpose all of that, including the access into the  
14 deep storages of the existing storages, if you look at the  
15 overall demand curve, the black line, we are still below  
16 that, so that indicates clearly that environmental flow is  
17 almost a non-issue. That is with 37GL/a in desalination.  
18 You will not desalinate to provide environmental flows, and  
19 that is also inclusive of significant increase in  
20 Shoalhaven transfers. For example, if you do take the  
21 Shoalhaven transfer system out and leave it as it is at  
22 this point in time, that is what that graph looks like.

23  
24 I would like to talk about Sydney Water, the existing  
25 WaterPlan 21. We have had some discussion about that.  
26 Essentially, that plan entrenches ocean disposal through  
27 the major ocean plants, a significant amount of resource  
28 being discharged through the main plants. Up to 450GL/a  
29 gets pumped out virtually untreated into the ocean.

30  
31 Very importantly for consumers in the next 30 years or  
32 35 years, by 2035, is really what you have procured after  
33 30 years of payments for that system. You will have  
34 entrenched ocean disposal. You perhaps may have several  
35 desalination plants. Shoalhaven River will be affected.  
36 Shoalhaven economy will be affected. With low-level water  
37 restrictions, the Sydney economy will be affected and you  
38 will have environmental flows to the Hawkesbury-Nepean  
39 only when you have surplus water available.

40  
41 Let's talk about what we would like to do. We would  
42 like to harvest the water from the three major ocean  
43 plants. We want to reclaim that water. There will be less  
44 marine pollution, so there wouldn't be a discussion of  
45 whether there is an impact on the sediment base. We are  
46 clearly pulling out a lot of the flows from the ocean  
47 outfalls.

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1  
2 What we would like to do with that is to return it to  
3 where it is needed, essentially to the rivers, to  
4 agriculture, to industry, on a fit-for-purpose basis. Most  
5 important is to look at what you have procured as a  
6 consumer after 30 years of payments. You will have the  
7 near closure of the major ocean plants. You will have high  
8 security water behind the dam walls by product  
9 substitution, little, if any, desalination, and Shoalhaven  
10 River will be left for the community of the Shoalhaven.  
11 You would want to grow both the Sydney economy as well as  
12 the Shoalhaven economy by selling water, by having enough  
13 water to really grow your economies, and there wouldn't be  
14 harsh water restrictions and there would be adequate water  
15 for environmental flows.

16  
17 This is what the demand/supply level could look like  
18 potentially in the first five years, and also to the other  
19 side the access to the deep storages, the 30GL/a. That is  
20 a water reclamation plant, potentially, as it's indicated  
21 there, in this exercise of 800ML/a, or 292GL/a, that  
22 adequately supplies all the needs for the next 30 years.  
23 Most importantly, that is only two-thirds of what is  
24 potentially available as we sit here today of the 450GL  
25 that is available.

26  
27 Now, which system? That is the big question. We  
28 believe it is a consumer choice based on value for money  
29 and also customer preferences most importantly.

30  
31 Our company recently, since the Metropolitan Water  
32 Plan was announced, commissioned an economic appraisal done  
33 for us by Marsden Jacob Associates, water economists of  
34 Melbourne, that looks at direct costs and avoided costs,  
35 environmental performance, consumer welfare, efficiency and  
36 economic impacts, budgetary impacts on not only  
37 Sydney Water but also on State Government, and eventually  
38 looked at an overall sustainability scorecard.

39  
40 There are significant avoided costs for Sydney Water  
41 with the implementation of our specific plan because a lot  
42 of the upgrades to the major plants would be reduced.  
43 There would be less operating costs in those plants. The  
44 Vaucluse/Diamond Bay could potentially be interconnected  
45 straight. There would also be avoided costs for the Sydney  
46 Catchment Authority as listed.

47

1 The outcome of the economic appraisal really is that  
2 our proposed system cost less in a present value over  
3 30 years, discounted at seven per cent, than the Metro  
4 Water Plan and WaterPlan 21. Very importantly, there is a  
5 dead-weight efficiency loss to the economy - a large figure  
6 postulated by the economists. This is really what  
7 hamstring or kept back the economies of growing. There is  
8 very significant concern about the sustainable yield as  
9 expressed by the Hawkesbury-Nepean River Management  
10 Forum - essentially, the recent climate shifts.

11  
12 There are also suggestions that environmental flows  
13 are achieved in the Hawkesbury-Nepean, bringing it to the  
14 detriment of the Shoalhaven River, and that the current  
15 crisis is simply just delayed and not properly addressed.

16  
17 Regarding the implications for the current price  
18 determination, Services Sydney would like to submit that  
19 both WaterPlan 21 and the Metropolitan Water Plan were not  
20 subjected to appraisals to our knowledge. That includes  
21 customer preferences for social, environmental and also  
22 economic outcomes. We believe we have a valid lower cost  
23 option. Competing options are not like for like. There  
24 are significant social equity issues between Sydney and the  
25 Shoalhaven community, and it is very important for the  
26 Tribunal to really recommend forward expenditures that are  
27 supported by customers. We are unaware that these plans  
28 are actually supported by customers. To the contrary, we  
29 have significant support from our community surveys for a  
30 truly sustainable system based on large-scale water  
31 reclamation.

32  
33 In conclusion, we would like to submit what we have  
34 just run through: we believe there is a valid lower cost  
35 option and customer preferences are very important. Thank  
36 you very much.

37  
38 MR SPANGARO: I think the Tribunal is conscious that you  
39 currently have a matter before the Australian Competition  
40 Tribunal following from your application to the National  
41 Competition Council. It would seem that there is  
42 significant uncertainty with your current proposal for  
43 access and if that proposal for access were approved by the  
44 Australian Competition Tribunal, I would have thought there  
45 would still be some significant environmental and other  
46 approvals that Services Sydney would have to obtain to  
47 proceed with the infrastructure and proposed reclamation

1 claim that I think you have in mind. Given the pressures  
2 that Sydney Water is currently under to invest in its waste  
3 water transport system to meet licence requirements, do you  
4 think it is reasonable to request of the Tribunal that it  
5 effectively deny Sydney Water funds through price to  
6 continue to invest with that capital program?  
7

8 MR VAN DER MERWE: Christopher, thank you very much for  
9 the question. I think the Tribunal should protect the  
10 interests of the consumers. For us to make a judgment as  
11 to what is reasonable or what is not reasonable is really  
12 outside our scope. What is important is the next slide.  
13 We are looking at the next five years for this price  
14 determination that really would put in place the  
15 foundations for inequitable systems for the Shoalhaven,  
16 very expensive desalination and entrenching ocean disposal.  
17

18 What happens after the next five years for the next  
19 25 years? That is the issue. That is the long-term  
20 mortgage we talk about. That is the money that is being  
21 shifted onto the next generations. Those are very  
22 important issues. In our case, there is a long history  
23 where we have been trying to work very closely with  
24 government and Sydney Water. We respect their decisions  
25 relating to out being in front of the Australian  
26 Competition Tribunal. We are comfortable with that.  
27 However, it has been a process that has taken four years  
28 and most importantly for Services Sydney is what you leave  
29 after five years of this price determination. There are  
30 recommendations for really putting in a water system that  
31 does not align with what we are proposing.  
32

33 MR REID: John, could you tell us where you see the market  
34 for your reclaimed water and is the success of the scheme  
35 dependent upon the Government buying much of that  
36 reclaimed water?  
37

38 MR VAN DER MERWE: Colin, thanks for the question. I  
39 think it is important to note that we want to access retail  
40 sewerage services through the application and apply that to  
41 construct large portions of our new water system. How far  
42 that takes us to put back a sustainable system, we can only  
43 determine, and frankly it is presumptuous for us to say  
44 today how far it takes because we have those high hurdles  
45 in front of us.  
46

47 What is very important is the purchase of water is the

1 discussion of the metro water plan of desalination. It  
2 will be the same customer who actually pays those loans  
3 off. It will be the same customer who pays for the additional  
4 pipes and pumping costs. So we look at headworks  
5 amplification, large scale headworks amplification. It is  
6 not a question of selling; it is a question of what the  
7 consumer wants.  
8

9 MR REID: Are there any health concerns that would  
10 prohibit your scheme proceeding that you are aware of at  
11 this point in time?  
12

13 MR VAN DER MERWE: We are unaware of any health  
14 concerns. It is really a matter for the Department of  
15 Environment and Conservation. Our position is clear: specify  
16 the quality you want. That is what we will deliver.  
17

18 THE CHAIRMAN: Thank you very much for that interesting  
19 presentation. I call on the representative for the Total  
20 Environment Centre to come up, please.  
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1 TOTAL ENVIRONMENT CENTRE

2  
3 MR MARTIN: My name is Leigh Martin from the Total  
4 Environment Centre. The Tribunal has requested that the  
5 two issues that I discuss this afternoon be the issue of  
6 transfers from the Shoalhaven system and also inclining  
7 block tariff structures for each of the agencies, which are  
8 two issues we have discussed in our submission.

9  
10 I will start with the Shoalhaven transfers issue. It  
11 is fair to say that we do not like it. That comes from  
12 some of the reasons that were just outlined in the previous  
13 presentation in terms of environmental impact, but also  
14 there is the very real issue of transferring environmental  
15 impact from unsustainable practices and in particular  
16 unsustainable water practices to another catchment. That  
17 is not only environmentally unsustainable but also socially  
18 inequitable. We see the Shoalhaven transfer scheme as a  
19 very poor solution to the problem of Sydney's unsustained  
20 water use.

21  
22 It is fair to say also that ultimately in seeking to  
23 capture high flows it is a system that is dependent on a  
24 reasonably high level of rainfall. That is perhaps a  
25 dangerous assumption to make as we move into the future  
26 with the potential for climate change reducing the  
27 reliability of rainfall we will have. That is a very  
28 severe weakness that the system is ultimately dependent on  
29 very high rainfall.

30  
31 There is also a potentially flawed assumption that  
32 when a river is in high flow conditions, that water is  
33 essentially passing out into the ocean and serving no  
34 environmental purpose. Yet we know that high flows are  
35 very important in terms of flushing off channels, dilution  
36 of salinity and maintenance of estuarine processes. Some  
37 of those variations in salinity are very important in  
38 estuarine processes and management and maintenance of  
39 fisheries.

40  
41 Some assumptions are being made in term of benign  
42 environmental impact of capturing high flows that I think  
43 need to be backed up with some scientific evidence and some  
44 scientific investigation. I am not confident that that  
45 level of evidence for that investigation is there to  
46 support the assumption that capturing high flows and  
47 transferring them into essentially the Warragamba or some

1 of the other supply dams is an environmentally benign  
2 option. That is probably as much a comment on the  
3 Government's metropolitan water strategy as on pricing  
4 issues, but we certainly ask the Tribunal to take that into  
5 consideration.

6  
7 It is also interesting to note that Sydney Catchment  
8 Authority is considering and negotiating for increased  
9 transfers from the Fish River water supply scheme. There  
10 we see another example of unsustainable water use practices  
11 from Sydney having an effect upon another catchment with  
12 the attendant environmental impact that that might entail.

13  
14 In terms of inclining block tariff structures, it is  
15 certainly the case that we have been strongly supportive of  
16 an inclining block tariff approach being adopted for Sydney  
17 Water. We support it also for some of the other agencies.  
18 I will deal with each of them in turn.

19  
20 In terms of Sydney Water, we very much welcome the  
21 work that the Tribunal did in its review of pricing  
22 arrangements to reduce demand for fresh water in the Sydney  
23 basin. We have welcomed a lot of the recommendations that  
24 were in that report. We support at this point in time the  
25 Tribunal's proposal to have a step point at 400KL which  
26 would be charged on a quarterly basis. We see the  
27 advantage of that in that customers will get a more regular  
28 signal in terms of their quarterly water use than they  
29 would be if there were an annual billing arrangement. If  
30 they reached the step point in one quarter, then they would  
31 have an opportunity to respond rather than incur a whole  
32 year of higher prices under the second tier before they  
33 became aware that their water practices needed some  
34 modification.

35  
36 I must say also that 400KL over the term of this price  
37 determination is probably a useful starting point. It is  
38 a relatively high level of usage at which to begin the  
39 second tier pricing. As I said, it has some use in this  
40 pricing determination in terms of moving customers to a new  
41 pricing system and ensuring that the impacts of the initial  
42 change are not too severe, but I must say that we believe  
43 that ultimately in subsequent price determinations that  
44 level will have to be reduced.

45  
46 We note that the Tribunal considered a range of  
47 options in its previous investigation and we were



1 supportive ultimately of moving to a 300KL step point. I  
2 would recommend to the Tribunal that whilst there is  
3 probably considerable value in introducing that 400KL step  
4 point initially, it should be very much working with the  
5 agencies to move towards a much lower step point in future  
6 price determinations.  
7  
8 There is also the issue of impacts on vulnerable  
9 customers and we do seek acknowledgment that that is a very  
10 important issue. We were very pleased to see some of the  
11 proposals that Sydney Water outlined in its submission in  
12 terms of protecting vulnerable customers. One of the most  
13 important of those is targeting residential retrofits  
14 towards those customers who are in a vulnerable situation -  
15 those with a low income but a high water consumption. I  
16 actually believe that that is a very important aspect of  
17 introducing a new pricing system.  
18  
19 It is perhaps fortuitous that the Tribunal is also  
20 currently reviewing operating licence conditions for Sydney  
21 Water because I would certainly recommend that that could  
22 be introduced as a condition in the operating licence;  
23 namely that those measures to protect vulnerable customers  
24 under a two-tiered pricing structure be a licence condition  
25 and compliance with that could be audited against Sydney  
26 Water's operating licence. In essence, there would be a  
27 greater assurance that that level of protection for  
28 vulnerable customers will be introduced in concurrence with  
29 the new pricing system.  
30  
31 We also supported a wholesale step price. We note the  
32 Tribunal is somewhat less enamoured of that approach than  
33 we were. Again we see that there is a problem at the  
34 moment that there is a perverse incentive for the  
35 corporation to sell more water. That undermines demand  
36 management initiatives and we do believe that needs to be  
37 addressed. We want a situation where it is economically  
38 more viable for Sydney Water to invest in demand management  
39 programs than it is to incur a wholesale penalty price.  
40  
41 In terms of Hunter Water, we are alarmed that Hunter  
42 Water has a declining block of tariff structure and has  
43 done for some time. We opposed its introduction in 2000.  
44 We opposed it at the last review and several years later we  
45 are no more attracted to the declining block tariff  
46 structure than we were five years ago. In particular, we  
47 see the discount for the very highest level of users -

1 those who use 50,000KL for industrial applications and who  
2 are close to headworks - as not only sending the wrong  
3 pricing signal but also providing a significant  
4 disincentive for industrial users, for instance, to move  
5 towards effluent reuse.  
6

7 Those are the customers who probably have the greatest  
8 potential to switch to effluent reuse. The greatest gains  
9 could be made by switching them over, but whilst ever you  
10 have a system whereby the higher levels of water use are  
11 essentially discounted, then that provides little incentive  
12 to switch. Even if you do not consider the issue of  
13 effluent reuse, given that any consumption over 50,000KL is  
14 at a discounted rate, it provides little incentive for  
15 those businesses to seek to make efficiencies to reduce  
16 their level of consumption given that once they reach a  
17 certain level, it is actually costing them less. We  
18 believe that that third tier price should be removed. We  
19 also support Hunter Water's proposal to remove the second  
20 tier price. We are pleased with that, but we do believe  
21 the third tier should be removed as well.  
22

23 In the case of Hunter Water and also the council  
24 schemes - that is Gosford and Wyong - we see that there is  
25 considerable value in moving towards an inclining block  
26 tariff for those agencies. If it were possible to do that  
27 in the current determination, we would strongly support  
28 that. We are not in a position to know whether the  
29 Tribunal has done the work that it needs to do to create  
30 such an arrangement in this price determination, but I  
31 would say if it is possible that it could be done, it  
32 certainly should. If it cannot be done in this  
33 determination, then the Tribunal should use the intervening  
34 four years to do whatever work it needs do with those  
35 agencies to determine an inclining block tariff structure  
36 for those agencies.  
37

38 We certainly see that as essential in the case of  
39 Gosford and Wyong. We are very disturbed that they are  
40 considering an extremely environmentally damaging option on  
41 desalination. We see that as the worst possible option  
42 particularly given those two agencies' very low level of  
43 effluent reuse at present. We certainly believe that water  
44 reclamation, effluent reuse, is a far more environmentally  
45 sustainable option. It does not carry anywhere near the  
46 same energy costs. It is financially less onerous on  
47 consumers, but also it effectively tackles another major

1 environment problem associated with current reticulated  
2 sewage systems and that is disposal of the effluent into  
3 the ocean and the environmental problems associated with  
4 that. We strongly believe that those agencies should be  
5 pushed very strongly down the path of an inclining block  
6 tariff approach itself.  
7

8 There is one final issue I want to comment on that was  
9 raised this morning in terms of the period of price path in  
10 this determination. We do not see any value in providing a  
11 two-year determination to Gosford and Wyong. We support a  
12 four-year determination. I think there is considerable  
13 value in having a common arrangement across the agencies.  
14 Also it seems very much to us as though the proposal for a  
15 two-year determination from the two councils is very  
16 largely centred around the considerations of a move towards  
17 desalination.  
18

19 We note the Atkins-Cardno report which indicates they  
20 don't believe that a case has been made for desalination.  
21 I can see little compelling reason to give those councils  
22 the two-year determination which would essentially then  
23 allow them to make a decision on desalination later this  
24 year and then come back to the Tribunal to seek a price  
25 path that incorporates desalination in its residential  
26 pricing. The case has not been made for desalination.  
27 That is clear in the report. It should not only be viewed  
28 as a bad option; it should be viewed as certainly an option  
29 that is not viable given that both those councils have a  
30 great deal more work they can do in terms of alternative  
31 supply sources including effluent reuse.  
32

33 MR SPANGARO: At risk of confronting you with a Hobson's  
34 choice, we particularly asked you to comment on the  
35 Shoalhaven transfer scheme, but I wonder whether you would  
36 be interested in commenting on the relative desirability of  
37 desalination in Sydney in the longer term and the enhanced  
38 Shoalhaven transfer system.  
39

40 MR MARTIN: We are strongly opposed to desalination as an  
41 option for Sydney Water. We see it again as being  
42 extremely unsustainable. There are two principal problems  
43 with desalination. Of course, there are the very high  
44 levels of greenhouse gas emission because of electricity  
45 consumption. Also there is a problem which is less  
46 frequently discussed; that is the fact that the by-product  
47 of desalination is a highly concentrated brine solution and

1 disposal of that brine in itself presents some very  
2 significant environmental challenges.  
3

4 I do not see it as being a trade-off between  
5 desalination and Shoalhaven transfers. I do not see either  
6 of them as being environmentally viable options. Certainly  
7 a much better option would be a greater reliance on water  
8 reclamation by effluent reuse.  
9

10 We have been in support of the Services Sydney  
11 proposal. We believe that Sydney Water has done very  
12 little in terms of effluent reuse. I guess that is  
13 witnessed in the decision to scrap the George River  
14 recycled water pipeline, which was much touted by Sydney  
15 Water over a period years and abandoned with little fanfare  
16 late last year.  
17

18 We see Sydney Water's performance in terms of effluent  
19 reuse as poor. We welcome the moves the government has  
20 made in the metropolitan strategy to promote effluent reuse  
21 and develop effluent reuse in the new release areas. We  
22 do, however, believe that effluent reuse must be applied  
23 across the already developed metropolitan area. Obviously  
24 the move to dual reticulation citywide would not be viable,  
25 but we are witnessing a situation where the metropolitan  
26 strategy is proposing 60:40 or even 70:30 on redevelopment  
27 versus greenfields development. Given that there will be  
28 very major urban redevelopment projects with increases in  
29 density. I would have thought that, in those major  
30 projects, you would get economies of scale which are likely  
31 to make effluent reuse viable.  
32

33 I also think we need to be not too caught up with the  
34 idea that effluent reuse must involve large plant. It is  
35 something that needs to be considered on the smaller scale  
36 as well. We have examples, for instance, of Rouse Hill and  
37 Olympic Park where small schemes are functioning reasonably  
38 well. There is no reason that, where we have significant  
39 urban redevelopment projects, you couldn't develop small  
40 schemes to service those areas.  
41

42 We do believe that inadequate attention has been given  
43 to effluent reuse. I think much of that is because the  
44 government perceives there are some political difficulties  
45 associated with the idea of recycled effluent. We see it  
46 as certainly a better option over both the Shoalhaven  
47 transfers and desalination.

1  
2 MR REID: I just wanted to talk to you about the question  
3 of recycled water pricing, particularly, in the case of  
4 that relationship between recycled water pricing and  
5 potable water pricing say, for example, in Rouse Hill but  
6 more broadly about setting recycled water pricing and  
7 Sydney Water's proposal to have that set on a catchment  
8 basis. What are your thoughts on that?  
9

10 MR MARTIN: I think the principle that must underpin  
11 recycled water pricing is that to promote a switch to  
12 recycled water, it needs to be competitive with potable  
13 water and it needs to be at a significant discount. That  
14 should reflect the fact that environmental costs associated  
15 with potable water use are to some extent defrayed with  
16 effluent reuse.  
17

18 Some of those significant environmental costs in terms  
19 of disposal to the ocean, the impact of capturing water and  
20 storing it in dams, for instance, are diminished. The  
21 ability to provide environmental flows, if we go to greater  
22 levels of effluent reuse - all those things need to be  
23 factored into the current potable water price, and we have  
24 made that point strongly throughout our submission. I  
25 think if you have a more cost-reflective pricing  
26 arrangement, it should recognise that recycled water  
27 carries lower environmental costs and therefore recycled  
28 water should be available at a discounted rate.  
29

30 MR REID: Do you believe that should be set as a uniform  
31 price across, say, for example, Sydney Water's area or --  
32

33 MR MARTIN: I guess I am open on that issue. For  
34 instance, with Rouse Hill and Olympic Park you have schemes  
35 that are essentially discrete and those residents are on  
36 different arrangements to anyone else in Sydney. The  
37 bottom line for us is we want to see an increase in the  
38 volume of effluent that is reused within Sydney taking  
39 pressure off the current potable supplies. I am open on  
40 the issue of whether you would use postage stamp pricing or  
41 catchment pricing on recycled water. The issue has to be  
42 what is the solution that gives you the greatest level of  
43 evident fluent reuse and I am quite happy for the Tribunal  
44 to determine which of those arrangements is better.  
45

46 MR REID: If the Tribunal were to endorse the inclining  
47 block tariff, where the pricing is set up to the incline,

1 if you like, and post the incline, what are your thoughts  
2 on that?  
3

4 MR MARTIN: Sorry, could you repeat that question?  
5

6 MR REID: If the Tribunal were to, say, set an inclining  
7 block tariff, the basis for price setting up to the point  
8 of the incline and post the incline - in other words,  
9 should the price post that inclining block be at a penalty  
10 price or some other basis?  
11

12 MR MARTIN: I think it needs to be set at such a level as  
13 provides a significant disincentive to go over the step  
14 point. Essentially there needs to be some degree of  
15 penalty imposed in it reflecting the costs of the higher  
16 water use. We supported the option that was recommended in  
17 the Tribunal's report on options to reduce fresh water use,  
18 drinking water use in the Sydney basin. I think it does  
19 need to be at a level such that there is a financial  
20 penalty for exceeding the step point. There needs to be a  
21 significant difference between that.  
22

23 We are of the view, however, that the current fixed  
24 charges should be reduced even more than the Tribunal has  
25 proposed and more than Sydney Water has proposed. A  
26 long-term bugbear for us has been the relatively small  
27 amount of control that customers have over the size of  
28 their bill given the other fixed charges apart from water  
29 access to sewerage, to service charges, the stormwater  
30 charges, for instance, and that needs to be addressed. We  
31 welcome the fact that the Tribunal is investigating that  
32 and we would like to see even more significant reductions  
33 in fixed charges.  
34

35 THE CHAIRMAN: Thank you very much, Leigh. We will  
36 break for afternoon tea. We will resume at 3.30.  
37

38 SHORT ADJOURNMENT  
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2  
3 MR PRINEAS: Thank you, Mr Chairman and members of the  
4 Tribunal, for the opportunity of allowing me to speak to  
5 you today. My name is Peter Prineas and I am representing  
6 the Nature Conservation Council of New South Wales. The NCC  
7 is an umbrella state environment organisation representing  
8 some 120, at last count, environment organisations.

9  
10 If I can just say a few things by way of introduction  
11 before addressing the specific issues that I was asked to  
12 talk about. The Nature Conservation Council does have a  
13 concern that environmental costs are not accurately or  
14 fully reflected in water pricing. If I can illustrate this  
15 by a recent example, there was a report by one of your  
16 consultants, Atkins, relating to the Sydney Water  
17 corporation and its leakage target. I think that was about  
18 January 2005. That introduced the notion that the  
19 environmental cost of water is 10 cents per kilolitre.  
20 That calculation was simply a figure pulled out of the air.  
21 It is called a "surrogate" number apparently. That's what  
22 you have when you don't know what something really is: you  
23 have a "surrogate". That was put forward as the basis for  
24 calculating the efficient level of the leakage target.

25  
26 The NCC and, I think, many others would feel that, in  
27 view of IPART's charter, which is in part to bring into  
28 account the environmental costs of services that it's  
29 charged with regulating the price of, a bit more work  
30 should be done in that area. In fact, a lot more work  
31 should be done in that area on the basis of that example.

32  
33 In view of IPART's concerns expressed in its issues  
34 paper for this current pricing review, the water price  
35 reflected a long-run marginal cost of water. We would feel  
36 that it is necessary that more attention be given to  
37 environmental costs as part of that exercise. We would  
38 argue that environmental costs must surely be part of the  
39 long-run marginal costs of water.

40  
41 Another point that we have concern about is that the  
42 environmental costs of not maintaining adequate  
43 environmental flows in rivers, which the DEC alluded to,  
44 are not being fully taken into account, and we note that,  
45 for instance, there is a very large difference between the  
46 suggested volume requirement for environmental flows for  
47 the Hawkesbury-Nepean, which were reported by the

1 Hawkesbury-Nepean Forum last year, and I think a figure of  
2 something like 120GL/a was mentioned. There's a very large  
3 difference between that figure and the provision made in  
4 the Metropolitan Water Plan. Of course there would be  
5 because you can't produce environmental flows overnight,  
6 and it would be a gradual process, but it's perhaps a bit  
7 too gradual, and as somebody who has been involved in this  
8 area for quite a few years, it's been around for a long  
9 time. It has been a live issue for a long time. I think  
10 that the speed at which we are dealing with it is too slow.

11  
12 Adequate incorporation of environment costs could lead  
13 to a re-evaluation of the need for recycling of water.  
14 There is a huge resource, as you know, in Sydney. The  
15 sewers have two-thirds of the annual water used in the city  
16 going out to sea, something like 400GL/a, and that is an  
17 enormous resource which you are fully aware of and it has  
18 been mentioned by others.

19  
20 The NCC would support potable water pricing, which has  
21 an adequate environmental price built into it and which can  
22 therefore allow recycled water, which does not have the  
23 same environmental cost to be sold at considerable  
24 discount. We don't see any great injury to economics in  
25 this because what we are saying is that if you take into  
26 account all the environmental costs, it is not a subsidy.  
27 It is a reflection of reality.

28  
29 Now, if we can get to the issue of price structure,  
30 which I was asked to address, NCC is supportive of the  
31 direction in which the Sydney Water Corporation and the  
32 Sydney Catchment Authority are heading. In relation to  
33 Sydney Water Corporation, we support increasing the usage  
34 component of the bill. We support applying the price  
35 increase that is sought to the usage component and not the  
36 fixed component. We support an inclining block tariff. We  
37 see the 400KL threshold as a start. We support changes  
38 that will allow the price signal to reach and influence the  
39 behaviour of home unit dwellers and tenants. So we support  
40 all those aspects of price structuring.

41  
42 In relation to the Sydney Catchment Authority, we  
43 support the focus on price increases on the volumetric  
44 component of the bill, which the SCA has said it wants to  
45 do. We know that IPART has not been very supportive of the  
46 idea of a wholesale step price. However, we still see that  
47 as a rationale pricing reform. Perhaps if it is not

1 possible to introduce such a reform in the near future,  
2 some attention could be given to the possibility of a  
3 volume cap as between Sydney Catchment Authority and Sydney  
4 Water, with a penalty price - the penalty going to the  
5 demand management fund established under the Metropolitan  
6 Water Plan. We'd see that as a perhaps more easily  
7 regulated approach and, therefore, perhaps more acceptable  
8 to the Government or the Tribunal.

9  
10 If I can now go on to the issue of assistance for  
11 large families and the question of impact of high prices on  
12 large families, as I was asked to address, in general the  
13 NCC supports rationale pricing of water. We think that  
14 unrealistic low water prices will in the long run hurt  
15 everyone, including large families, small families,  
16 families of all kinds, and individuals.

17  
18 We note from the literature that we have seen that  
19 moderate to low income households with high water usage  
20 number some 37,500 in Sydney, or in the Sydney water area,  
21 and we note that around about 57 per cent of those, or  
22 about 20,000 households, report they can easily reduce  
23 water usage. That leaves a problematical segment of about  
24 17,000 households. I am not sure about the number of  
25 households in Sydney, but it might be around one million,  
26 so 17,000 in one million is not a big problem. It is  
27 manageable.

28  
29 NCC does not believe that just because it is a small  
30 segment of the market or population it can be ignored. We  
31 support the Sydney Water approach in its submission, which  
32 is to seek to minimise the impact of high water prices on  
33 vulnerable members of the community. Currently I  
34 understand what they do is subsidise demand management  
35 retrofits. The Government funds rebates to pensioners.  
36 There is provision for extended payment, extended terms of  
37 payment, and there is provision for hardship vouchers -  
38 a scheme administered by charities.

39  
40 On top of that, I understand that there will be  
41 targeted residential retrofits for large families which  
42 will be free in hardship cases. There will be assistance  
43 with the purchase of water-efficient appliances. We would  
44 support those extra proposals.

45  
46 Assuming that an inclining block tariff is  
47 introduced - and we do support that - we support a rebate

1 on the total water and sewer bill for large families as  
2 long as it's means-tested. However, we think that that  
3 additional support should be subject to take-up of the  
4 retrofit and water appliance offers over a reasonable  
5 period of time.

6  
7 Now, I get to my last point, which is on the regional  
8 plan of the Sydney Catchment Authority and its impact on  
9 operating expenditure. I don't have much to say about  
10 this. The important thing to know is that two-thirds of  
11 the Warragamba catchment of the Sydney Catchment Authority,  
12 which is by far the largest catchment they manage and which  
13 accounts for 80 per cent of their water, is not adequately  
14 regulated by the Sydney Catchment Authority. It currently  
15 doesn't have any adequate regulatory powers. It does have  
16 some powers. Under the Environmental Protection  
17 regulation, it has some limited powers. It has some  
18 limited powers under SEPP 58 with regard to development and  
19 it can give directions under section 117 of the EPA Act so  
20 as to influence the making of local environmental plans.

21  
22 However, the real power to regulate the outer  
23 catchment, as it is called, depends on the making of the  
24 regional plan - the drinking water catchment's plan. This  
25 has been around in two drafts and two public exhibitions  
26 for four years. It still has not been made. Indeed, it is  
27 more than six years since the McClelland inquiry and we  
28 still have yet to see an important part of what McClelland  
29 recommended become a reality.

30  
31 The operating expenditure issues relating to the  
32 regional plan have not been, in my view, or in the NCC's  
33 view, adequately dealt with in the SCA submission. One  
34 would expect that, when that plan is made, there would be a  
35 significant operating expenditure impact in the requirement  
36 to make rectification action plans and have them  
37 implemented and in the requirement to give concurrence to  
38 development all over the catchment area, including in the  
39 towns, subject to a neutral and beneficial effect test  
40 which has to be applied, and is a novel approach, and  
41 subject to offsets, the administration of an offset scheme.  
42 So it's quite a large, complex regulatory effort that we  
43 don't think has been adequately taken into account in what  
44 the SCA wants to do. We are left with the question as to  
45 whether, after four years delay, there is a serious  
46 commitment to this process.

1 We understand that at the present time the draft  
2 regional plan is with DIPNR. They have written another  
3 report to their minister and we do not know where the thing  
4 lies. So, with those remarks, I'll conclude. Thank you.  
5  
6 MR SPANGARO: Thanks, Peter. Just a question on  
7 incorporation of environmental costs into water prices:  
8 the SCA pricing proposal that we received included capital  
9 expenditure to facilitate environment flows; that is,  
10 essentially make modifications to some of the structures so  
11 that environmental flows can be appropriately released.  
12 Similarly, with regard to some of the costs in the  
13 Metropolitan Water Plan which are to increase the overall  
14 supply, essentially some of that supply will be used to  
15 enable environmental flows. Now, water customers at  
16 Sydney Water will be paying for both of those lumps of  
17 expenditure. My question is whether you think there are  
18 other areas of environmental costs that should be directly  
19 incorporated into prices.  
20  
21 MR PRINEAS: Well, I think with regard to the quantum of  
22 the flows, the amount of water that would have to actually  
23 be released to meet what seems to be an informed view of  
24 what is required, the actual volume, there's a big  
25 difference between what is released now and what the Hunter  
26 and the Nepean Forum report suggested - a huge difference,  
27 some tens and tens of gigalitres. I don't know what the  
28 exact figure is. That will be a big cost.  
29  
30 I think that has to be taken into account if we are  
31 going to be serious about environmental flows. By  
32 releasing 120GL/a, where will that water come from and who  
33 will pay for it? It's not really reflected in the next  
34 five years because, frankly, it's been put off until after  
35 that period by the Metropolitan Water Plan. It has put it  
36 off for quite a long period in terms of real increments.  
37 We think that's unfortunate that it's further delayed and  
38 we're going to be perhaps 10 years from now before we see  
39 any serious increment. That's about all I can say in  
40 answer to your question.  
41  
42 MR REID: Do you have a different view to DEC as far as the  
43 detriment caused by the ocean outfalls is concerned? That  
44 is one question. The second question is: putting aside the  
45 question of environmental flows, where do you believe that  
46 there should be additional effort made on catchment  
47 management by Sydney Catchment Authority?

1  
2 MR PRINEAS: I wasn't here when DEC gave their submission  
3 but I did read it and I think their view would be that the  
4 outfalls are having a negligible impact on the environment.  
5  
6 Probably the NCC would take the view that that is  
7 probably a bit too rosy a view, but the more important  
8 thing from the point of view of water pricing is the waste  
9 involved in putting out to sea 400 billion litres of water  
10 every year which could easily be reused.  
11  
12 Also, in the same breath, talking about desalination,  
13 where you are letting all that water go into the sea and  
14 then you are going to get it back as sea water, with all  
15 the problems that that entails, it just doesn't seem  
16 terribly rational. So I hope that answers your question on  
17 outfalls.  
18  
19 Regarding the question on environmental flows and  
20 catchment management, I am not quite sure I understood  
21 your point.  
22  
23 MR REID: You talk about concern with the amount of money  
24 that the catchment authority is spending on catchment  
25 management. I am wondering if there were any specific  
26 areas that you would like to highlight that you believe are  
27 inadequate?  
28  
29 MR PRINEAS: I have highlighted I think at length the outer  
30 catchment, the lack of regulation and effort in the outer  
31 catchment, because they just don't have significant powers  
32 in that two-thirds or more of the catchment that is not in  
33 the inner catchment. The inner catchment is almost like  
34 their land. It is managed as national park and they have a  
35 big influence on how it is managed, so that is fine, but  
36 the outer catchment is quite a different story, and that is  
37 where the main problem lies.  
38  
39 There are many other details. Agriculture is a big  
40 problem because it is not well regulated under the planning  
41 system. Many aspects of agriculture are not development  
42 and, therefore, escape development control, so that is  
43 another issue. But I don't want to have to take up too  
44 much of your time talking about it now.  
45  
46 THE CHAIRMAN: Thank you very much. Can I now call on  
47 the Public Interest Advocacy Centre.

1 PUBLIC INTEREST ADVOCACY CENTRE

2  
3 MR WELLSMORE: I am Jim Wellsmore from the Public  
4 Interest Advocacy Centre. Thanks very much to the Tribunal  
5 for the opportunity to speak with you today and to try to  
6 expand just briefly on some of the points we made in our  
7 written submission.

8  
9 Perhaps the big issue really exercising our minds is  
10 the price increases that pretty much all the agencies  
11 across the board are pursuing - some of them quite large.  
12 I guess I would want to say at the outset that PIAC does  
13 not automatically oppose price increases. Our concern  
14 about price increases, on the one hand, is the social  
15 impact that they might have, and we are talking about the  
16 possibility of increases in the prices of water at the same  
17 time as we are seeing prices of other essential services,  
18 electricity, gas, public transport and so forth, also going  
19 up.

20  
21 On the other hand, we are also concerned about price  
22 increases because, quite frankly, we like to see they are  
23 going to be justifiable, that there is some good reason for  
24 putting prices up.

25  
26 Now, with regard to Sydney Water, as an example, some  
27 of their price increases related to the Metropolitan Water  
28 Plan, and I will discuss that a bit more in a minute, but  
29 some is related simply to just increasing the rate of  
30 return. This is something that comes up in the electricity  
31 and gas industries too from time to time. Everybody wants  
32 to raise the rate of return, which is a nice thing if you  
33 say it quickly enough. But, given that we are talking  
34 about monopoly businesses in capital-intensive, long-life  
35 essential service type industries, basically we are  
36 confounded at the idea that rate of return needs to just be  
37 driven up and up. So we really do not support the portion  
38 of the Sydney Water price increase that would come simply  
39 from improving their rate of return.

40  
41 We are also not very supportive at all of the sorts of  
42 proposals coming out of Gosford and Wyong. They are quite  
43 sizeable price increases and, as we have noted in our  
44 written submission, we have drawn attention to data from  
45 Professor Vincent's report on social disadvantage and  
46 Gosford and Wyong seem to encompass some of the deepest  
47 pockets of social disadvantage in all of New South Wales.

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1 So it is a bit glib to say, "Let's just whack on an eight  
2 per cent price increase and nobody will notice that".

3  
4 We are also a bit galled, I suppose, that  
5 representatives of the Government can rock up and propose,  
6 "Let's just bang the price up and nobody will notice". On  
7 the back of a Metropolitan Water Plan which is at its heart  
8 focused on dealing with the supply/demand problem, by  
9 increasing supply, the Government then comes and says,  
10 "We're very concerned about demand management. We need to  
11 drive demand management. We'll put the price up". Our  
12 response to that is: why doesn't the Metropolitan Water  
13 Plan, which by the way will also be funded by price  
14 increases, do something more concerted about demand  
15 management?

16  
17 We heard a story before about someone's swimming pool.  
18 The problem I think with the swimming pool analogy is that  
19 you have to question whether you should be taxing the water  
20 or whether you should be taxing the swimming pool. One  
21 person wants to fill the swimming pool, so let's put their  
22 price up. Unfortunately, their neighbour who doesn't have  
23 a swimming pool or the person across the town will also  
24 have to pay more to pay for the water they drink, but they  
25 will attack the problem by dealing with the price of water,  
26 which is very much a secondary consideration, I would have  
27 thought, over decisions about whether we should have a  
28 swimming pool in our backyard.

29  
30 Having said all that about price increases and that  
31 generally we are not happy about most of the price  
32 increases that are being asked for this time around, I just  
33 want to make some comments briefly about inclining block  
34 tariff proposals. Specifically everybody seems to think  
35 that is a good way to go and it will be equitable and fair  
36 and people will pay as they should pay. But the difficulty  
37 that we have with that is it really just takes one kind of  
38 subsidy and replaces it with another kind of subsidy. You  
39 could have a house with six people in it now. They might  
40 be using in aggregate slightly more water than the house  
41 next door which might only have three or four people in it.  
42 On a per capita basis, the five- or six-person household  
43 might be more water efficient than the neighbours. Who  
44 will get hit first with an inclining block tariff? The  
45 large household, the people that are actually at a net  
46 level making a bigger effort to be more water efficient.  
47 So who will be subsidising whom under that kind of

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1 arrangement?

2

3 The difficulty then is that in lots of cases,  
4 particularly for large households, you have a problem about  
5 elasticity, particularly in the case of people who are  
6 tenants. They have many fewer options about how to address  
7 their consumption. Research that PIAC has undertaken, some  
8 based on the work the Tribunal secretariat has done in the  
9 past, shows us that usage actually in the case of water is  
10 more related to household size than it is to income.

11

12 With electricity, it seems that income is one of the  
13 important drivers in household consumption. In water it is  
14 household size. That does start to throw up some quite  
15 major problems when you have, for example, just over 16 per  
16 cent of all households who would be classified as large  
17 water users who are actually low-income households. The  
18 problem with large households again is that we know that  
19 large households are disproportionately represented amongst  
20 those consumers who are suffering financial hardship and  
21 have difficulty in paying the utility bills to the point  
22 where they have been disconnected or restricted in the case  
23 of water.

24

25 We are talking about a group that is very vulnerable  
26 and likely to be hit in a disproportionate way by inclining  
27 block tariffs, and for what gain? I don't know. In fact,  
28 the issue that hasn't been addressed is whether inclining  
29 block tariffs actually will reduce demand. Again, if you  
30 say it quick enough, sure, it makes sense that it will  
31 reduce demand, but will it? Our research suggests that for  
32 a number of households, particularly those that are already  
33 vulnerable in financial ways, they are not going to be able  
34 to respond by reducing demand.

35

36 So we come to this basic issue with inclining block  
37 tariffs where, on the one hand, we say that what we want to  
38 do is drive demand management so we put the price up, but  
39 we also want to recover the environmental cost or the  
40 capital cost so we should put the price up. The difficulty  
41 that PIAC has is we are not sure which you are trying to do  
42 at any given time. If we are trying to drive demand down,  
43 how will we recover our costs? We are not sure. Maybe we  
44 are not worried about demand management at all, so let's  
45 put the rate of return up.

46

47 It is a difficulty for us, and I accept that the

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1 industry - both water and energy, but in this case  
2 particularly water - is slowly moving to introduce measures  
3 to deal with financial hardship and social equity problems.  
4 Sydney Water is probably the furthest advanced down that  
5 path. I would still submit that what they are doing is  
6 quite a modest effort really. If you compare household  
7 retrofitting with what they are going to spend on capex and  
8 opex over the five-year period of this determination, it is  
9 pretty small. I suppose, from our point of view, some of  
10 these are things that should be being done anyway not as a  
11 sort of consolation prize or, "We will put your price up -  
12 bad luck - but we might give you some crumbs from the  
13 table." Household retrofits should be being done anyway  
14 not as sort of a sop but actually as a completely sensible  
15 coherent approach to the demand and supply problem.

16

17 The other issue about those sorts of things is that if  
18 in fact measures like retrofitting or, let's say, inclined  
19 block tariffs, changes in price structure, actually did  
20 have the result of reducing demand, it seems to us that is  
21 a benefit that is shared by the community. So the cost  
22 should be borne by the community and not directed simply at  
23 certain households that we think we can identify that maybe  
24 have a swimming pool or maybe don't or maybe have five  
25 kids and two dogs or maybe it's two people living in a home  
26 with rose bushes out the back.

27

28 From our perspective we would rather see price  
29 structuring done quite differently and we would be much  
30 more interested to see things like further efforts to shift  
31 the weighting in prices away from fixed charges into  
32 volumetric charges.

33

34 We also think that if people are really serious about  
35 the issue of social equity, and we really think there  
36 actually are a small number of people that will be caught  
37 up with the inclining block tariff, then a more  
38 effective method of addressing that issue and of targeting  
39 those people specifically since we think everyone should be  
40 getting household retrofits would be to go down the path  
41 the United Kingdom has attempted of actually capping bills  
42 for low income households. That would be an explicit,  
43 direct and effective equity measure and not just sort of,  
44 "Here's a trade-off - bad luck."

45

46 I probably should then conclude by making some very,  
47 very brief remarks about miscellaneous charges. Some

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1 members of the Tribunal - the secretariat is certainly  
2 aware of this - would be aware that PIAC has a long history  
3 of being unhappy with miscellaneous charges. We think that  
4 the businesses tend to see them as easy money. It is rare  
5 that they are actually justified in any sort of way. We do  
6 not really see much strength in the argument about equity.  
7 Consumers, certainly household consumers, are quite  
8 accustomed to the idea that costs are sort of smeared  
9 around - they are for most things actually - but suddenly  
10 for one or two things that we can pull out of a hat, it is  
11 now being said, "Well, we should not smear the costs in  
12 that way."  
13

14 I take issue about late fees particularly. In  
15 Victoria, the Government has announced it will move to  
16 actually prohibit late fees for water energy providers. In  
17 other parts, taking metro Sydney, they are still sort of  
18 trying to jump that bandwagon of making some easy money.  
19 It seems to us that if you have a real issue about some  
20 people paying late - I am not sure why that issue suddenly  
21 popped up. I am not sure what has changed, if you like, in  
22 that regard - if you have to have a policy which builds in  
23 a whole bundle of exemptions or this category does not have  
24 to pay at all or that category does not have to pay, maybe  
25 people like Sydney Water should go back to the drawing  
26 board and come up with a better idea to target the areas.  
27

28 Our understanding is that it is not so much  
29 households; small business customers are the bugbear for  
30 the utility companies. So why try to slap a late fee on  
31 households? Particularly with the proposals around hiking  
32 charges for restriction and removing of restrictions - I  
33 think Hunter Water is proposing that - again the problem we  
34 have with that sort of thing is that, in the overall scheme  
35 of things, it is not a large amount of money, it is easy  
36 money but it is not a large amount of money for the  
37 businesses. There is not a huge cost involved particularly  
38 in the case of the water businesses who do not restrict  
39 many people; but for the individual who is hit with those  
40 fees, it is quite a significant issue, particularly if in  
41 fact the reason that they have been disconnected is because  
42 they are a large household in financial hardship who  
43 couldn't afford to pay a bill and got restricted. You will  
44 have to have some sort of hardship scheme which enables  
45 those people to get over the line and pay their bills. You  
46 will only make it harder for them to do those things  
47 because they will then be hit with a higher charge for

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1 getting the restriction lifted.

2

3 In all we think it is a bit of a nonsense and an  
4 incoherent approach to the problem when essentially what we  
5 are really talking about is the cost of doing business and,  
6 yes, it may well be a cost that is smeared across everybody  
7 else, but, as I say, we get used to that. I think it would  
8 be hard to think of an industry where that sort of cost  
9 smearing does not go on. Thank you.

10

11 MR REID: Obviously water agencies have assistance schemes  
12 for disadvantaged customers. Has PIAC been able to compare  
13 the schemes that are offered by the different agencies and  
14 do you have any comments on the relative appropriateness of  
15 each of them?  
16

17 MR WELLSMORE: Look, to be honest, I am not actually sure  
18 what the Gosford and Wyong agencies do. We have heard in  
19 the past that they have a hardship committee but I am not  
20 really aware of who is on that committee, how it meets or  
21 the criteria it uses to assess hardship or what it actually  
22 does when it has assessed its criteria. I am very unclear  
23 and sort of none the wiser about what they do, which is  
24 interesting when you look at the data which suggests they  
25 have lot a lot of social hardship in those areas.  
26

27 I think Hunter Water is slowly, slowly, coming along.

28 With a lot of prodding they have now introduced a sort of  
29 counterpart scheme to the payment assistance scheme that  
30 Sydney Water has set up. I note, though, this has happened  
31 with some prodding. I think the same has been true of  
32 Sydney Water; it has taken some prodding.  
33

34 As I said before, I think Sydney Water is doing the  
35 best amongst the water agencies, but I am also aware that  
36 there is a view in senior management if not the board of  
37 Sydney Water, that says, "We do not really want to go out  
38 of our way to provide too much hardship assistance because  
39 what if people found out about it? They would all want  
40 some, wouldn't they, and we would be swamped with all these  
41 people who want free water." There is quite a cynical  
42 attitude that comes through in all the businesses, and that  
43 spreads across the energy side as well.  
44

45 We think there is quite a long way to go. With  
46 probably one exception in the energy industry, there is  
47 still quite a long way to go in terms of businesses

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1 actually understanding what is actually needed as a sort of  
2 a quid pro quo for being able to supply an essential  
3 service under a monopoly arrangement.

4  
5 MR REID: I was talking to a Sydney representative at  
6 afternoon tea. He said that 60 per cent of Sydney Water's  
7 customers do not pay their bill within the due time. I am  
8 just wondering how you can better target the vulnerable  
9 customers as opposed to those who you are just playing the  
10 system, if you like, if you do not have a late fee or  
11 something similar?

12  
13 MR WELLSMORE: As I say, I am not sure if that number is  
14 any greater than it was last year or five years ago. So  
15 should we do something about it now? I suppose. Why  
16 didn't we do something about it years ago? I don't know.  
17 What do we really gain? People are talking about \$5. Does  
18 that really provide a signal or a penalty? I do not know,  
19 and who actually are the people who are not paying? "I am  
20 a tenant. I do not get a bill, so it is not my problem,  
21 Jack."

22  
23 Based on the discussions I've had with people over  
24 morning tea and such over the years, my understanding is  
25 that it is not households that tend to be the problem in  
26 terms of the argument. I've heard this argument too about  
27 playing the deadline off against people. That seems to me  
28 anecdotally to be an issue more about large users, business  
29 customers more than households. I could be wrong. I am  
30 happy to be proven wrong about that, but rather than having  
31 a blanket scheme and designing a couple of exemptions, I  
32 would have thought the approach would be to say, "Here  
33 actually are the problems and let's go after those people."

34  
35 MR SPANGARO: Changes to price structure are generally  
36 proposed in order to encourage a higher level of water  
37 conservation and managed demand. Do you acknowledge that  
38 there is a bit of a tension between introducing a price  
39 structure to better manage demand and also introducing  
40 measures such as caps on low income household bills and  
41 rebates on bills which may affect the purpose of the price  
42 structure change itself?

43  
44 MR WELLSMORE: Yes, absolutely.

45  
46 MR SPANGARO: In that context, I would be interested in  
47 your assessment of the measures that Sydney Water has

1 proposed to protect vulnerable customers, if a significant  
2 price structure change is introduced.

3  
4 MR WELLSMORE: That is always a problem. Anything you do  
5 to mitigate the impact of the price structure or the price  
6 change or the price signal will undermine the effectiveness  
7 that price signal has. You are sort of caught between a  
8 rock and a hard place. That is, as I say, on the  
9 assumption that the signal will actually have the effect  
10 that you say you want it to have.

11  
12 We would think the answer to that is to address demand  
13 not to actually try to provide a signal to people. With  
14 some people in the community, clearly you will need a very,  
15 very fat heavy blunt signal to get the message across;  
16 whereas addressing demand, household retrofits, compulsory  
17 water restrictions, these things seem to us to produce  
18 results which you cannot only predict with some measure of  
19 certainty but you can certainly measure and assess down the  
20 track. With price, you really have no idea whether it has  
21 been the price signal that has made the change or not.

22  
23 I have to say that the thing I find most interesting  
24 in arguments about the inclining block tariff is that,  
25 generally speaking, people say, "Jeez, we are not trying to  
26 actually just raise heaps more money out of people, so  
27 maybe we should try and be revenue neutral." So the first  
28 step, the first block will actually lower the price  
29 slightly. All of a sudden we see elasticity of demand is  
30 actually asymmetric. If you put the price down, people  
31 actually immediately do not use more. So then the argument  
32 that says, "Well, people are wasting water like there is no  
33 tomorrow because it is really cheap" seems to me to rather  
34 founder on those particular shoals; people are not just  
35 wasting water because it is really cheap. So giving a  
36 price signal does not seem to me to be the answer. It is  
37 about physical actual demand management or regulating  
38 behavioural change through things like water restrictions.  
39 That avoids all of the complexity and all of the  
40 uncertainty about price signals.

41  
42 MR SPANGARO: The second part of the question was about  
43 Sydney Water's proposed measures to assist vulnerable  
44 households in the face of a price change. Do you have a  
45 view of the effectiveness or likely effectiveness or  
46 adequacy of those measures?

47

1 MR WELLSMORE: Oh, they are all good. We are happy about  
2 that. As I say, Sydney Water is slow but they are leaping  
3 ahead by comparison with the other businesses. We have  
4 been out in the public in the past saying we think they are  
5 doing a good job. The household retrofitting stuff they  
6 are doing now, subsidising it for a low income people is  
7 great. It is a very modest of activity but it is certainly  
8 going in the right direction and we are very pleased about  
9 it.

10  
11 One of the problems is that these schemes do not tend  
12 to operate in a universal way. Our research around  
13 disconnections and restrictions shows that a significant  
14 number - in fact about half the people - face disconnection  
15 or restriction of supply because of financial hardship.  
16 Around half of those people actually do not find their way  
17 to the supplier or the agency for assistance. There are  
18 probably a number of reasons for that. Sometimes it is  
19 about network. Sometimes they do not want to go to the  
20 charity and ask even the retailer or the agency for  
21 charity, so they scrimp and save in other ways.

22  
23 No scheme can solve every problem and I suppose that  
24 is my point. If you create a problem with prices, any  
25 scheme you come up with to mitigate the negative impacts of  
26 that will have gaps in it. It will miss people, so you are  
27 going to increase the number of people out there that are  
28 in danger of being disconnected or restricted and  
29 increasing the number of families out there saying, "I  
30 guess we'd better buy less food this week or we'd better  
31 put off paying the kids school shoes because we are under  
32 pressure to pay the water bill otherwise we will get  
33 restricted and there will be no showers. So what do we do?  
34 Send them to school dirty and cold or send them to school  
35 without shoes?" Those are the sorts of issues that were  
36 taken up in the disconnection research that we did last  
37 year.

38  
39 THE CHAIRMAN: Thank you very much. Last but not least we  
40 will ask a representative of the Energy and Water  
41 Ombudsman.

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1 ENERGY AND WATER OMBUDSMAN

2  
3 MR DODDS: Chris Dodds for the Energy and Water  
4 Ombudsman of New South Wales. Our organisation  
5 investigates and resolves complaints from customers of electricity  
6 and gas providers in New South Wales and water customers of  
7 Sydney Water, Hunter Water and now CountryEnergy, or what  
8 will very soon be CountryEnergy, previously Australian Inland.  
9 Unfortunately we do not have the jurisdiction so we do not  
10 receive complaints from consumers in Wyong or Gosford. We  
11 noted with interest that Wyong Council thought that an  
12 Ombudsman scheme was to be introduced and they would be  
13 interested in joining. We are pleased to tell them there  
14 is one and they are welcome to join at any time. We look  
15 forward to receiving their application in the very near  
16 future and would encourage Gosford to do the same.

17  
18 Our submission is brief. It is really about looking  
19 at the impact of increased pricing on low income consumers.  
20 At the moment, compared with electricity and gas, we  
21 receive a minimal number of complaints from the water  
22 providers. When we look at the balance of complaints that  
23 we get from the energy suppliers, the bulk of those are  
24 about difficulty in payment and disconnections. We have a  
25 concern that we would see an increase in the level of  
26 people contacting EWON for assistance and to make  
27 complaints if there were to be significant price rises and  
28 in particular if they were to be introduced in a very rapid  
29 process.

30  
31 While we would broadly support initiatives for water  
32 conservation - as EWON has in a range of submissions made  
33 to IPART and to other regulatory authorities, and indeed to  
34 the green paper on the future of energy directions for New  
35 South Wales - we actually have our doubts about the  
36 effectiveness of things like inclining block tariffs. In  
37 terms of the most disadvantaged consumers, their  
38 discretionary consumption is fairly limited. It is not as  
39 though they have swimming pools they can choose not to fill  
40 up. What consumption they do use is often dictated by the  
41 circumstances they find themselves in, often with the most  
42 energy or water inefficient household utilities - very old  
43 washing machines and, in the case of energy, uninsulated  
44 houses, et cetera.

45  
46 I found it interesting, being a long-term Hunter  
47 resident, to hear and to read Hunter Water's position on

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1 the value they saw in user-pays pricing. I think they  
2 actually underestimate the work they have done in terms of  
3 the reduction of consumption through community education.

4  
5 I was at the meeting where Mr Patterson announced the  
6 introduction of user pricing all those many years ago in  
7 Newcastle. It was a very big and a very heated public  
8 meeting. I must correct the Hunter Water person. That  
9 meeting was actually in the workers club because the Town  
10 Hall was not big enough to hold the number of people that  
11 came at that to that meeting.

12  
13 Ever since then, at every single community function  
14 that you could ever imagine happening, Hunter Water are  
15 there with their education campaign. They sponsor things  
16 at local community fairs. They have had education tents.  
17 They are a fantastic part of the Hunter community,  
18 educating and teaching all of the residents about water  
19 saving and water conservation. That has been a really  
20 significant part of the achievement of significantly lower  
21 usage rates in the Hunter, I would argue, maybe along with  
22 user pays. Certainly I think Hunter Water has downplayed  
23 that side of its activity. We think that demand management  
24 that is based on education and a range of other things has  
25 to be seen as having an equivalent value particularly for  
26 disadvantaged people in terms of achieving a reduction of  
27 consumption and it has an equivalent or even better value  
28 than just simple and fairly blunt price increases.

29  
30 This is particularly so in the case of water more than  
31 energy because of the simple reality that a highly  
32 significant number of disadvantaged people are in fact  
33 tenants. I remember actually asking Mr Patterson about the  
34 issue of tenants at that public meeting all those many  
35 years ago. It has been disappointing, over that whole  
36 period of time, that little has been done to address the  
37 situation where tenants are left as consumers of water but  
38 not having any sort of relationship whatsoever to the  
39 provider of water. So, for all intents and purposes, they  
40 are excluded from the payment assistance scheme or access  
41 to it.

42  
43 I know both Sydney Water and Hunter Water say they  
44 will provide \$25 assistance. There is actually a \$25 limit  
45 on the payment assistance scheme to tenants. In the case  
46 of Hunter Water it is available only if they have a direct  
47 payment arrangement with Hunter Water. For the last 12

1 months I was the manager of a tenants advisory service that  
2 resourced tenants in the Hunter Valley. I know anecdotally  
3 and from my experience that the bulk of tenants pay their  
4 water via their real estate agent and do not have a direct  
5 payment arrangement with the water provider. I suspect the  
6 same would be reasonably true in the case of Sydney Water,  
7 although I was having a discussion on that today and I  
8 think that is something to explore.

9  
10 My experience indicates to me that in fact most  
11 tenants receive a bill for water usage from the real estate  
12 agent. They pay the real estate agent. Indeed that does  
13 lead to some tenants contacting EWON because if the agent  
14 is inefficient and does not pay that bill, a tenant can be  
15 on the receiving end of restrictions even though that  
16 tenant has actually paid the appropriate amount of money.

17  
18 As well, even with the pensioners concession, the  
19 relationship between the water providers is with the  
20 property owners. That stems from the historical  
21 relationship of water charges being more related to rates  
22 and to land ownership than the way energy was provided. So  
23 even in the case of the pensioner concession, if you are a  
24 pensioner who is a tenant, and particularly in the area of  
25 Sydney, although equally now on the Central Coast and in  
26 Newcastle, rents have risen enormously - there has been an  
27 enormous increase in rents - you would get the pensioner  
28 concession for your energy bills, but you would not be  
29 eligible for a pensioner concession for the usage component  
30 of the bill.

31  
32 As we move more and more to a situation where water is  
33 billed more and more on the basis of usage, that means the  
34 most disadvantaged pensioners - that is those who rent as  
35 opposed to either being with the Department of Housing or  
36 owning their own property - will not have access to that  
37 important concession system. I think there is still some  
38 work to be done on assistance.

39  
40 Certainly, EWON recognises, welcomes and congratulates  
41 Sydney Water, particularly on its proposal - I don't think  
42 it was spelled out this way - to be involved in one way or  
43 another in a no-interest loan scheme, which has been around  
44 for a long time, which will provide access to interest-free  
45 loans so that people can upgrade the quality of their  
46 whitegoods. That is a really significant and important  
47 progress in terms of the assistance that has to be made

1 because it is about demand management. It is a very clear  
2 and direct link to that.  
3  
4 We welcome and look forward to having discussions with  
5 Sydney Water and hope Hunter Water will make the same steps  
6 forward in terms of extending and expanding access to the  
7 payment assistance scheme for tenants. We also look  
8 forward to having some discussions about the pensioner  
9 concession.  
10  
11 However, we do think that in particular the water  
12 authorities need to follow the energy companies and look at  
13 the introduction of Centrepay for those people who are in  
14 receipt of pension and receipt of government income.  
15 Particularly in the case of a major energy provider who has  
16 established a strong and hardship program, a customer  
17 support program, Centrepay has been the centrepiece of  
18 their customer support program and has achieved for that  
19 energy company, they would claim, something like a 60 per  
20 cent reduction in disconnections. So we would look to the  
21 water companies to start to make those sorts of  
22 arrangements with Centrelink so that people who are on  
23 pensions can get the benefits of Centrepay arrangements.  
24  
25 We also think that, in the long run, what will be  
26 needed across all utilities is some benchmark hardship  
27 programs, or customer support programs. This appears to  
28 EWON to be the rational way. It seems to us to be an  
29 irrationality that there are a range of assistance programs  
30 in one company, but not in another, and that access to them  
31 is defined differently. We look forward to working with  
32 all of our members - that is the energy and water companies  
33 - and with the various regulatory authorities in trying to  
34 establish some genuine benchmarks for customer support  
35 programs that could then provide some universal guarantees  
36 to disadvantaged consumers in this area of consumption of  
37 what are essential components for everyday life.  
38  
39 I would like to finish up by commenting on fees and  
40 charges. EWON would, at the very least, like to endorse  
41 most strongly direct price setting of fees and charges by  
42 the Independent Pricing and Regulatory Tribunal. We think  
43 it is important that fees that are claimed to be being set  
44 to recover costs have some supervision. We think that the  
45 banking industry has shown us all that it is a very short  
46 path from setting fees to recover costs to setting fees as  
47 income generation. Once you are well down that path, it is

1 very difficult to reverse that direction, as we have seen  
2 happen with a range of fees such as the transfer fees  
3 between various different teller machines, et cetera. That  
4 has been on the agenda to be rectified for a number of  
5 years now and I believe the latest attempt has stalled yet  
6 again. We strongly advocate direct price setting in that  
7 area. We also believe, along with the hardship programs,  
8 that it would be a useful process if there were some  
9 commonality across utilities in terms of late fees and  
10 other fees and charges that are set so there could be some  
11 assurance of the fact that they are about a process of cost  
12 recovery if that is their nature. I would like to leave it  
13 at that.  
14

15 MR SPANGARO: Thank you. Just on the question of  
16 miscellaneous charges, do you have a view about Sydney  
17 Water's proposal to introduce a late payment fee?  
18

19 MR DODDS: A number of our members already have late  
20 payment fees and our view is restricted to the fact that we  
21 believe if that fee is to be introduced, then it should be  
22 a regulated charge. They should just not be allowed to set  
23 a price.  
24

25 MR REID: Thanks, Chris, for your comprehensive  
26 presentation. I have a small question. Can you tell me  
27 what were the major causes of complaints that you received  
28 in relation to water agencies and how you would compare the  
29 level of complaints that you receive between Hunter Water  
30 and Sydney Water?  
31

32 MR DODDS: I am sorry, I cannot. I have only been working  
33 there for three months and I have not done that analysis.  
34 I can certainly find that out for you and provide that  
35 information to you, but off the top of my head that is just  
36 beyond my capacity to answer at the moment. You have  
37 really put me on the spot. I hope they will not be too  
38 unhappy with me when I come back to work.  
39

40 MR REID: Thank you. That will be fine.  
41

42 MR SPANGARO: Let me have another go at doing the same. I  
43 wonder if you have a view about the adequacy overall of  
44 Sydney Water's proposed measures to mitigate the impact of  
45 price restructure on vulnerable households. They set out a  
46 number of measures in their pricing proposal. I am just  
47 wondering if you have an overall view about the adequacy of

1 those?  
2  
3 MR DODDS: I think there are some details that need to be  
4 added before I could make an absolute judgment on adequacy.  
5 As I said, I was thrilled to read, for example, that part  
6 of their program is about supporting a no-interest loan  
7 scheme. I think that is a really essential part. What  
8 dollar value they will put on that was not clear to me and  
9 I think that if it is a token gesture in that direction,  
10 then that will not be an adequate response. If it is  
11 significant gesture, then it will go a long way towards  
12 making things a whole lot easier for people, and maybe in  
13 the context, if inclining block tariff is put in, for a  
14 family with three children having an efficient washing  
15 machine may well keep them below the 400 mark. That is the  
16 sort of thing that is effective if it is done in numbers.  
17  
18 I think I am a little bit less unhappy with the  
19 quality of the work. I noted they hit the 250,000 refit  
20 mark just recently. What is important about the refit  
21 program is that there be a conscious targeting of that to  
22 disadvantaged communities. I think Sydney Water are moving  
23 in that direction in the context of using a lot of the  
24 information from the Vincent inquiry and using  
25 disadvantaged measurements like postcode and targeting  
26 those areas.  
27  
28 If that is the path they continue on and they now set  
29 a 500,000 mark and then a 1 million mark on the refit  
30 program we should see that occur over a reasonable period  
31 of time, I know that the refit program that is being  
32 undertaken in the Hunter in conjunction with  
33 EnergyAustralia has actually run into problems in terms of  
34 just the number of tradesmen available to do some of the  
35 refits, so these things have to be done at a practical  
36 level as well as a commitment to meet numbers level.  
37  
38 As I said before, I think the extension of the payment  
39 assistance scheme to tenants is a really important part of  
40 that process. Sydney Water indicated that that would be  
41 dependent on direct payment arrangements by tenants with  
42 Sydney Water. That is an area that needs some further  
43 discussion, given my belief that the bulk of tenants  
44 actually do not make direct payments for water; they pay  
45 real estate agents. Maybe there is a place there for some  
46 conversations with the institute of real estate agents,  
47 building owners, the tenants advisory services et cetera,

1 to look at that. I am sure both Sydney Water and Hunter  
2 Water would be interested in exploring that process, or I  
3 hope that they would be.  
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1 CONCLUDING REMARKS

2  
3 THE CHAIRMAN: Thank you very much. I must say I can  
4 empathise with someone who cannot answer every question  
5 after only three months in the job.

6  
7 I note that the Tribunal's concluding notes are  
8 programmed to take 10 minutes. I would like to begin by  
9 thanking everybody for working within their allotted time  
10 period. I had a sense that, on occasions, it would have  
11 been better if we could have extended the time allowed, but  
12 we would not have finished on time - and we have done that.  
13 You can be assured, I will not speak for 10 minutes.

14  
15 My concluding remarks will be just a few observations  
16 on the days proceedings. A critical issue that has been  
17 discussed today is prices, because that is the basic reason  
18 why we are here. We are here really to have a dialogue  
19 leading to a decision by IPART on what prices will be in  
20 the future. My sense is that there is quite a lot of  
21 agreement about the broad direction of the pricing into the  
22 future, which will go upwards. That is quite a change from  
23 the past when it has been going downwards. Indeed, some of  
24 the water agencies may suggest that, on their projections,  
25 the households will be paying less.

26  
27 Even if they get the price increases they are asking  
28 for, households would typically be paying less on their  
29 water bills than they paid, some would say, a decade ago or  
30 certainly no more than they were paying a decade ago.  
31 Those projections still have to be tested as far as I am  
32 concerned but they may well be right. The agreement was  
33 particularly strong on the shift which is occurring towards  
34 volume pricing rather than fixed pricing.

35  
36 On the question of inclining block tariffs, there were  
37 some, I suppose, from the environmental movement who  
38 thought that the step point was pretty generous and  
39 envisaged it coming down in the future - I think from 400  
40 to 300 was one suggestion. On the other hand, there are  
41 genuine concerns about the impact on lower income families.

42  
43 I wish to make an observation in that regard because  
44 we are very conscious as a Tribunal that we have a duty to  
45 look at the impact on those families, so we are  
46 particularly interested in that part of the discussion.

47

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1 One point that was made is that low income families do  
2 not have swimming pools and do not have the discretion to  
3 economise on their water. I suppose you can turn that on  
4 its head and say the same family probably does not use as  
5 much water if it does not have a swimming pool, or - dare I  
6 say it - roses in the bottom of the garden; therefore if  
7 you set a fairly generous step, then they are not likely to  
8 be impacted because they are low users, because they do not  
9 have discretion. The exception, of course, is the large  
10 family, the large low income family. All I would like to  
11 say on that is I think we do need to give further thought  
12 to the impact of price rises on large low income families,  
13 but I put as much emphasis on the "large" as on the  
14 "income".

15  
16 The second issue I want to mention is the proposed  
17 investment strategy. The expenditure on investment is part  
18 of the justification for the proposed price increases. It  
19 is a significant component, I suspect, of the justification  
20 for the proposed price increases. We heard quite a bit of  
21 discussion about whether all those investments were  
22 necessarily the best way to proceed.

23  
24 Some people took a view that there are alternatives  
25 that would be better, I suppose most obviously the  
26 representative Services Sydney, which had a very different  
27 strategy and invited the Tribunal to basically pause and  
28 not validate through price increases the proposed  
29 investment strategies by the authorities.

30  
31 Can I just say in relation to the alternatives that  
32 the Tribunal is not the maker of government policy when it  
33 comes to water or indeed to anything else. Where the  
34 Government has announced a policy or a strategy in respect  
35 of water or energy or any other matters that the Tribunal  
36 considers, it is not for the Tribunal, if you like, to seek  
37 to overturn that policy. So, in our further proceedings,  
38 you can be assured that we will not be seeking to overturn  
39 government policy.

40  
41 Finally, an issue was mentioned but it didn't get a  
42 lot of attention, and that is the rate of return on  
43 investment. In the same context, I also want to pick this  
44 up in the question of recycled water and so on. My sense  
45 is that there was considerable sympathy for using recycled  
46 water at this hearing, other things being equal. What we  
47 didn't really explore in great depth was the relative cost

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1 of recycled water or even the demand for recycled water  
2 relative to water taken from rivers. What was recognised  
3 was that the price of water from traditional sources will  
4 affect the demand for recycled water.  
5  
6 All I say in that regard is that, if the rate of  
7 return on capital investment in traditional ways of  
8 supplying water is held low, then that will affect demand  
9 for recycled water and would, in effect, represent a  
10 significant subsidy to traditional ways of producing water.  
11  
12 That is all I have to say by way of trying to  
13 summarise today's proceedings. I would like again to thank  
14 you all for your participation. Perhaps I can particularly  
15 thank those who came to Sydney to see the Tribunal, whereas  
16 it could be argued that the Tribunal should have gone to  
17 Newcastle, Gosford and Wyong to see the constituents.  
18 I thank you all again for your attendance today.  
19  
20 AT 4.40PM THE TRIBUNAL ADJOURNED ACCORDINGLY  
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