

November 15,2002

Professor T.G.Parry, Chairman  
Independent Pricing & Regulatory Tribunal  
PO Box Q290  
QVB POST OFFICE NSW 1230

Dear Professor,

SUBMISSION on SYDNEY WATER PRICING  
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This submission addresses Section 6.4.1 of Sydney Water Corporation's (SWC's) submission dated 30.9.02. That section is headed "Minor service extensions". I oppose the proposal because, from 20 year's experience in backlog sewerage issues, I believe the SWC proposal is inequitable and impractical, After explaining my reasons I submit an alternative approach which is both fair to the owners of backlog properties and the community, and is practical.

The Backlog Sewerage Program  
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The following figures have been obtained from SWC under FOI and by correspondence.

	Lots
Balance of the Priority Sewerage Program to year 2006 totals ..	5710
The "High priority in the 1996 EPA assessment" .....	660
The 'A' ranking properties set by the EPA in 1999 .....	8650
The 'B' ranking properties set by the EPA in 1999 .....	2810
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sub-total (95%)	17830
The 'C' ranking properties set by the EPA in 1999 ..... ( 5%)	870
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Total listed (100%)	18700

What SWC is referring to as "fringe" properties are those they failed to list for the EPA's consideration. SWC overlooked them, and by strange logic, claims "there is no environmental imperative" for them to be sewerred.

No-one knows how many of these forgotten properties exist, but I am aware of some in suburban, contiguous areas: and they are no smaller than some areas listed for priority ranking.

"Minor Water & Sewerage Extensions Policy"  
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A policy of this name was drafted in 1993 and adopted by the Board of SWC 13.9.94. It provides essentially what is now being submitted to IPART in section 6.4.1 option 3. By FOI in January 2002 I was advised of 6 "Examples of the Application..." of this policy. Each of these extensions was for 1,2 or 3 lots and I believe each project was owned by one individual, and was vacant land. If this is the case they are similar to developer projects.

This year however SWC has applied this policy to sewer 6 properties, owned by 6 owners, adjoining Windsor Road, Kellyville. SWC is currently pressing 8 owners of long-established, contiguous properties in Belrose to accept this policy. It has suggested it also for about 15 similar homes at Casula.

Belatedly SWC is asking IPART to ratify a policy it has already implemented and intends to apply to projects it did not list for the EPA.

The essence of this proposal is that the owners pay the full cost of the project (preferably initiated and managed by the owners themselves), then SWC will grant their contribution (previously called a subsidy) calculated on 30 years discounted cash flow (NPV) of the current 'rates' @ 7%. The latest calculation for sewerage is \$4,360 per lot, but for Kellyville, earlier this year, SWC contributed \$3,824 per lot.

I oppose this policy for the following reasons.

1. The term 'minor extension' is not defined. SWC originally applied it to projects of only 1 to 3 lots but recently to 6, 8 and 15 lots owned by separate individuals. By contrast, 17 long-standing homes and some commercial properties at Casula were charged the full cost of construction plus developer charges (DSP) but without subsidy, Such is SWC's inconsistency.
2. A subsidy of \$4,360 is hardly comparable to the \$14,000 applicable under the 1987-1999 policy. Set in 1987, that \$14,000 would now exceed \$24,000 after adjustment for the CPI.
3. Of the 18,700 lots recognised in the priority lists, 95% will get sewerage without charge to the owners if present determinations and Government policy continue. Only 5% will be required to pay, yet all unsewered urban areas cause and suffer pollution from individual and neighbouring septic systems.
4. The use of the NPV approach to future sewerage revenue assumes that all of the additional 'rates' are for capital purposes, whereas the major part is in fact required for operating expenses, not capital. The concept as applied here therefore is not valid.
5. Experience tells us it is extremely difficult to obtain agreement from a community to pay for sewerage construction, despite how urgently they may need it. Some owners are financially able to pay, and may be willing to do so, but (even in seemingly wealthy areas) there are impecunious owners; and the proportion of retirees in unsewered areas is increasing.

#### Priority Ranking Should not Determine Who Pays

If priority ranking determines who pays for sewerage and who does not, those with the lowest priority wait longest, then be disadvantaged further by having to pay the full cost. However those who are willing and able to pay will get it ahead of those with the greater environmental and health risks.

#### The BASIS of an ALTERNATIVE PROPOSAL - Who pays, how and when

- \* The duration of ownership of a backlog property should determine whether the owner contributes for the cost of sewerage. A long term owner has to meet the cost of an alternative system and/or its maintenance. Note that the regular cost of septic pump-out is commonly 3 to 6 times greater than sewerage 'rates'. Added to that is the health, environmental and social disadvantages during a long wait for sewerage.

- \* By contrast, a short term owner can make a windfall gain on the sale of a property after the sewer is available without suffering **so** much hardship.
- \* The easiest method for collecting a contribution is when the property is sold. **SWC** already has a procedure to record contributions owing.

DETERMINING the OWNER'S CONTRIBUTION and WHEN PAID  
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- A, Where **a** property is sold within the 5 year period following the provision of sewerage the owner/vendor's contribution becomes due as at the settlement of the sale less a rebate at the rate of **10%** for each year the owner held the property to that date.

For example, if the owner purchased the property in **1999**, the sewer was available in **2002**, and then sold in 2003 (after 4 years), the owner would pay 60% of the contribution. However if the property had been owned by the vendor since **1993** or earlier the vendor would be exempt, **i.e. 100%** rebate. A purchaser after 2002 would be exempt because the previous owner would have settled the contribution..

- B. Where the owner is a deceased estate, the term of ownership before death plus the term of the estate and the beneficiary merge into one term, thus a **10%** rebate per year continues as for one owner.
- C. At the close **of** the 5 year period after the sewer is available, those owners who have held their properties less than **10** years will be advised of their contribution less their rebate to that date. The net amount is then fixed and may be paid immediately or at any time but no later than the date of ultimate sale together with interest as from the end of the 5 year period. The interest would be at the Reserve Bank Cash Rate (RBCR),
- D. **VACANT LAND:** Where a vacant lot is sewered in the course **of** a backlog project, that land should be treated as a developer project and bear the construction cost plus developer charge (DSP). The amount should not be subject to a rebate or time limit. The amount should be paid at the time of a development approval or sale, whichever occurs first. The amount due should be adjusted for the CPI. If the land is further subdivided later, the usual additional developer charges would then apply.

FREQUENCY of PROPERTY SALES  
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Real estate agents advise that the average property in Sydney sells every **6** to **8** years. Allowing for real estate optimism, it would appear that many properties would be sold after sewerage is provided, thus a contribution be made where they have been owned less than **10** years.

It is impossible to anticipate how much would be contributed but if this proposal is applied for sewerage work after the current program to **2006** (for which free sewerage has already been promised) the collection of contributions thereafter will be greater than making only about 5% pay the full cost.

MANAGEMENT and its COST  
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In recent times **SWC** has pressed the owners of backlog areas to manage their own sewerage project. This places an unacceptable burden on one or two enterprising individuals. Forming a corporate legal entity **to** act for the group is unrealistic and unfair. **SWC** must manage every backlog project undertaken because it has the supervisory responsibility and expertise.

The costs charged to a backlog project should be the construction cost only, **SWC** management fees should not be included as any delays caused by **SWC** add a further financial burden for the owners.

SWC's SUBMISSION Section 6.4.2  
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I agree with **SWC** that where backlog sewerage is provided, sewerage rates should become payable after 21 days as used to be the requirement; i.e., not deferred until the property is connected. Prompt charging is fair for the capital cost incurred by **SWC**. The charges provide an incentive **for** the ratepayer to connect sooner for the sake **of** the environment and health.

COMMUNITY ACTION & NOTICES GIVEN  
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In the past there has been much community discontent over the provision **of** sewerage and its possible cost to property owners. If this suggested policy is adopted, prior notice should be given before each project is planned; also a reminder **at** the time notice of availability is given. No-one can then plead ignorance **of** possible liability if and when a contribution falls due. **As** the contributions become due only as individual sales occur, there is less chance **of** concerted resistance.

Yours sincerely,



Walter **Wood**